ALTERNATIVE COMPENSATION PLAN (BROADBANDING)

A Report Prepared for the

Legislative Finance Committee

By
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Legislative Fiscal Division

www.leg.state.us/fiscal/
PURPOSE

The 1999 legislature modified laws for state employee human resource requirements by introducing an alternative classification and compensation system. This system was presented to the legislature as a tool to: 1) streamline the job classification process; and 2) aid agencies in addressing perceived recruitment and retention issues. This report provides background on how the system came into being and documents a review of its implementation in Montana. Costs and impacts associated with its implementation in Montana state government are presented. Finally, issues are raised with the implementation of the system and options are presented for legislative consideration to address the issues identified.

INTRODUCTION

Personal service costs make up roughly one-third of the state operating budget1. Because the state’s investment in its workforce is substantial and in the interest of equity, the legislature developed pay schedules and procedures for applying those schedules to state workers. Along with the statewide classification system, statute describes how to apply pay schedules to teachers and blue-collar workers.

In addition to three pay schedules that include most state workers, under 2-18-303 (6) thru 2-18-303 (9), MCA, the legislature allows exceptions to the pay schedules, including the development and implementation of alternative pay and classification plans for certain classes, occupations, and work units that have been historically difficult to recruit and/or retain. This statute was developed to give state agencies flexibility to deal with these special circumstances. The state is responding to the law through the Broadband Plan. The Broadband Plan is a two-tiered process of competencies and broad pay bands intended to provide agency flexibility. Broadbanding will be discussed and defined in this report.

The implementation phase of the broadbanding portion of the alternative pay and classification plan is being approached by agencies in different ways. In some agencies, employee classes such as information technology workers are being moved into the Broadband Plan. In others, the entire agency is migrating to the Broadband Plan. It is unclear whether the legislature intended an autonomous, multiple-agency, fragmented implementation. If it did, it may not have intended some of the implementation issues, including cost increases, associated with this implementation phase. For example, the report will identify inconsistencies among agencies in the application of survey data and different pay levels for similar occupations.

Through statute, the legislature recognizes that recruitment and retention problems exist within state government. Consequently, statute allows the Department of Administration (DOA) to develop programs to mitigate difficult recruitment and retention problems. Further, statute also allows DOA to address recruitment and retention issues arising out of inadequate salaries when compared to competing employers. This suggests that when recruitment and retention problems arise because of low pay, pay raises might be justified.

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1 In fiscal 2002, personal service costs made up roughly 37 percent of the total HB2 and HB13 budgets for all agencies for the operating accounts (personal services, operating expenses, and equipment) and 15 percent of the total budgets for all accounts.
However, as the report shows, when agencies that had provided either agency-wide or position targeted pay raises were asked for data that would demonstrate a cause and effect link between inadequate pay and recruitment and retention, none was presented. The report should not be misunderstood -- Montana may have recruitment and retention issues because of low pay. However, the lack of conclusive data suggests that granting a pay raise to bring employees’ pay closer to that in surrounding labor-markets as part of an effort to improve recruitment and retention may have been premature.

MONTANA HUMAN RESOURCES COMPETENCY PROJECT

Because the state has cited recruitment and retention issues in presenting the Broadband Plan to the legislature and agencies have generally used the flexibility for scale adjustments the report focuses on the use of the Broadband Plan as a recruitment and retention tool. However, the state is not viewing this program from only that perspective. Broadbanding is also a philosophy that can be separated from strict adherence to that particular goal and used as a personnel management and pay tool with wider purposes and goals.

The Montana Human Resources Competency Project (the Competency Project) was initiated by Governor Racicot’s administration and approved by the 1997 legislature on the premise that it would provide a management tool to help state agencies respond to fast-changing human resource issues. The Competency Project provides an alternative classification and pay system with two concepts that provide agency management with increased human resource flexibility. These concepts are competencies and broadbanding.

Competencies are measurable and observable knowledge, skills, abilities, and behaviors that contribute to success in a job. Broadbanding is a strategy for salary structure that consolidates a large number ofpay grades into a few “broad bands”.

CHARACTERISTICS OF STATE LAWS

As they stand today, the key characteristics of state laws for the state classification and compensation system for state employees are listed below:

- 2-18-102, MCA - Personnel administration is assigned to the Department of Administration (the department)
- 2-18-102, MCA - The department can delegate portions of its authority pertaining to personnel administration and classification, but not compensation determination, to agencies
- 2-18-106, MCA - There are no limitations placed on the legislature’s authority to appropriate for salaries and wages (however the legislature can not decree the salary for any individual employee)

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\[2 \text{ Information based on} \ \text{FRONTIERS} \ \text{newsletter published by the State Personnel Division of the Department of Administration [www2.mt.gov/doa/spd/HRSS/NEWSLTR498.htm]} \]

\[3 \text{ Competencies are defined in} \ 2-18-101, \ MCA, \ \text{which contains the definitions associated with state employee classification, compensation, and benefits.} \ \text{FRONTIERS} \ \text{states that competencies are “a blend of behavioral-based factors with traditional knowledge-based factors that are important to a particular job. Examples of competencies are communication, customer service, teamwork, and flexibility.}} \]

\[4 \text{ Auxílium West – The HR Manager at} \ \text{www.auxillium.com/broadbn2.shtml. In Montana, 25 pay grades would be replaced with 9 pay bands.}} \]

\[5 \text{ Title 2, Chapter 18 of the Montana Code Annotated} \]
o 2-18-202, MCA - Guidelines for classification are based on similarity of duties performed, responsibilities assumed, and complexity of work with the positions grouped into classes based on similar qualifications of education, experience, knowledge, skill, and ability

o 2-18-208 and 2-18-209, MCA - The goal for the classification plan and pay schedules is to establish a standard of equal pay for comparable worth

o 2-18-301, MCA - It is a stated legislative intent that compensation plans for state employees be based on an analysis of the labor market with compensation provided necessary to attract and retain competent and qualified employees

o 2-18-301, MCA - The department shall administer the pay program established by the legislature on the basis of:
  o Merit
  o Internal equity
  o Competitiveness to external labor markets when fiscally able

In summary, these characteristics of state law are that: 1) the classification and compensation system is administered by the DOA; 2) compensation should be competitive with the external labor market; and 3) jobs with similar duties and characteristics should be grouped to provide equity so equal pay is provided for comparable worth. State employees also receive common treatment regarding group benefits and contributions towards group benefits – a single employer outlook.

HISTORY

Classification System Prior to Competency Project
Prior to the 1991 legislative session, employees’ pay was determined by a 25-grade, 13-step classification and compensation system. Based upon a salary matrix, employees were rewarded for the amount of time they devoted to state service. This combination of grade and “steps” was used to “promote” employees within a pay grade. Under this system, a grade 12 with 8 steps would earn more than a grade 12 with 6 steps.

The concept being that when an employee spent more time in a position, he or she became more valuable as experience was earned. The compensation system (Statewide Classified Plan) used for most state employees consisted of a job evaluation methodology with seven factors for determining job placement in the compensation system. By using this seven-factor process, each job was classified into a pay grade.

Interim Study – Beginning of a Market Based System
The legislature began to question the effectiveness of paying employees based upon the amount of time spent within a particular grade. Instead of paying employees based upon time, the legislature explored a pay and classification system based upon competitive labor markets. While the 25-grade system with step salary increases was in place, the legislature directed staff to study the state employee classification and compensation system. Consequently, during the 1989/1990 interim, a study of the system was conducted that involved a large committee made up of representatives from the private sector, state

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6 Job complexity; working conditions; occupational knowledge, skills, and abilities; management and supervision of others; supervision received; scope and effect; and personal contacts
agencies, and legislative staff. Legislative staff documented the study in a report titled, *Montana State Employee Compensation: A Market-Based Plan*.\(^7\)

In this report, staff identified problems and made recommendations for dealing with perceived problems of the 25-grade, 13-step classification and compensation system. In conjunction with this report, a labor market study was also undertaken to identify the competitiveness of pay provided to state government workers in Montana.

The interim study report discussed three major problem areas in the classification and compensation system discussed above: 1) state salary ranges were not competitive with the external labor market (other Montana employers and other state governments); 2) the 13-step design of the then-existing structure created inequities between individual employees and compressed the pay distribution at certain step levels; and 3) the structure didn’t allow for general salary increases to keep pace with changes in the market and progression increases to move employees through the pay ranges. The study concluded that low state salaries compared to the regional market were contributing to recruitment and retention issues. The study also identified that the employee compensation plan contributed to: 1) pay inequities between individual employees and the market; and 2) instances where experienced employees were being paid less than new employees.

**Change to a market based system**

The study led to the legislature refining the classification system used for grouping jobs into pay grades. However, the key change was the removal of step progressions in pay as a part of the state pay plan bill. Perceived problems with salary competitiveness remained.

In addition, each position’s salary was determined by applying a target market ratio factor to the market salary for the grade determined through the classification process. The target market ratio for an employee was determined first from a written formula that later evolved into a table contained in the state pay plan bill (HB 13) that cross-referenced the employee’s pay grade with their years of uninterrupted state service.

Under this new system, employees’ earned more pay by applying a higher market ratio that was earned as a result of increasing longevity as a state employee. These increases, along with adjustments in the state pay plan bill to the market levels for pay grades, was the only way for an employee to receive a salary increase without receiving a promotion to a job classified at a higher grade or having their position reclassified to a higher grade as a result of either adding new or more complex duties to the job performed.

Although it seemed to be an improvement, the market-based plan continued to reward employees for time spent in state service. Rather than using steps, the market-based system advanced employees based upon their percentage of the market rate of pay for their classification grade. Consequently the legislature, at the urging of agencies experiencing recruitment and retention problems, began to explore paying employees for their contributions of competency and performance rather than just time in state service.

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Competencies and Broadbanding
In order to explore a competency-based system, the legislature initiated a demonstration project for an alternative pay and classification system to address recruitment and retention issues identified by the state agencies. In addition, the state pay plan bill tasked DOA with studying the future viability of performance-based pay in the statewide pay plan.

Among other changes, the 1999 legislature amended state laws for state employee classification and compensation by introducing the concept of competencies into the area of human resources (HR). When the 1999 legislature added the concept of competencies to HR statutes, it was established as a demonstration project which authorized the DOA to develop and implement an alternative pay and classification plan for certain classes, occupations, and work units. The changes made by the 1999 legislature allowed pay to be based on demonstrated competencies and accomplishments, the labor market, and other department defined situations.

The 2001 legislature made the alternative compensation and classification plan a regular part of statute when it removed the demonstration project designation. DOA may now develop and implement an alternative pay and classification plan to provide the market-based compensation to attract and retain competent qualified employees. Although the alternative pay and classification system was made a permanent option, state law still limits its use to certain classes, occupations, and work units that have problems associated with difficult recruitment, retention, transfers, or other exceptional circumstances. The alternative pay and classification plan currently being implemented by DOA is the Broadband Plan discussed in this report.

BROADBAND PLAN
As stated, the Statewide Classification Plan (pay plan 60) used for most state employees prior to the development of the Broadband Plan consists of 25 pay grades with each position assigned to a grade level through the seven-factor classification process discussed above. In contrast, the Broadband Plan (pay plan 20) consists of only nine pay bands with wider compensation ranges than those of pay plan 60. The Broadband Plan also differs from pay plan 60 by using only one factor – job complexity – to classify a position into a pay band.

State Personnel Division staff in the DOA have stated that by reducing the number of classification factors from seven to one, the position classification process can be streamlined and the administrative burden reduced. This change is intended to make the process more responsive to agencies’ needs as they work to fill vacant positions.

INTENDED ACCOMPLISHMENTS OF THE BROADBAND PLAN
When the legislature approved use of the Broadband Plan it granted very broad guidelines and goals. It was primarily intended to provide agencies with a flexible tool that could be used to:
1) reward employee performance; and
2) allow agencies to address market factors that were contributing to perceived recruitment and retentions problems.

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8 Chapter 720, Montana Session Laws 1991
APPLYING THE BROADBAND PLAN – AGENCY INTERPRETATION

After the 1999 legislature authorized DOA to develop and implement an alternative compensation system, agencies began converting employees to the Broadband Plan. Each agency converting to the Broadband Plan has done so to varying degrees. Some agencies have converted only specific groups of employees while others have done so for nearly the entire agency. Agencies are also taking different approaches to implementing the Broadband Plan. In some agencies the plan has the appearance of being a tool to provide pay increases for their employees outside the limits of the state pay plan. Others are only converting selected organizations with occupations experiencing recruitment and retention challenges.

Table 1 illustrates the relative populations of employees in the different state pay plans. Table 1 was developed from data taken from the Statewide Accounting, Budgeting, and Human Resource System (SABHRS) and shows the number of employees assigned to the different state pay plans as of April 5, 2002. Information is only provided for those agencies that had personnel assigned to the Broadband Plan (pay plan 20) as of that date and is only intended to illustrate the relative populations in the various plans.

Table 1 illustrates that just over 32 percent of the employees in the 10 agencies have been moved to the Broadband Plan. Most employees in the Department of Fish, Wildlife, and Parks (FWP), Department of Transportation (except mainly the blue collar workers), and Department of Commerce have been moved to the Broadband Plan. Two other agencies\(^9\) have stated they will move to the Broadband Plan and the

\(^9\) Department of Environmental Quality and Department of Natural Resource and Conservation
Department of Corrections has stated more of the agency’s personnel will be converted to the plan by the end of fiscal 2002.

Implementation of the Broadband Plan has had corresponding fiscal impacts. Agencies that convert employees to the Broadband Plan during the 2003 biennium have had to deal with funding issues within their current appropriations. Implementation during the 2003 biennium will also have impacts on the budgets for the 2005 biennium. These issues are addressed below.

**FISCAL IMPACTS OF THE MOVEMENT TO THE BROADBAND COMPENSATION PLAN**

Information retrieved from SABHRS was used to estimate the fiscal impacts of the movement to the Broadband Plan. Table 2 illustrates the fiscal impacts for the agencies that had moved positions to the Broadband Plan as of April 18, 2002. It is important to note that hourly pay information was retrieved for each individual employee and not by position. Also, no determination was made to classify raises given to employees not currently in the positions they were in at the time the Broadband Plan raises were given. All statutory pay adjustments, such as the pay plan bill, longevity, and those originating from “cat and dog” bills (Highway Patrol pay increases of HB 135 from the 1999 legislature) were excluded and only pay adjustments associated with the flexibility of the Broadband Plan were considered. Even though Highway Patrol pay increases coincide with movement to the Broadband Plan, these pay increases were excluded from the fiscal impact calculations because agency flexibility was limited when the legislature specified the requirements for the increases. Table 2 provides an estimate of the annualized cost of the hourly adjustments by multiplying the hourly impact by 2080 hours per year.

Table 2 illustrates that for the 10 agencies that have moved employees to the Broadband Plan, the annualized cost would be just over $3.9 million. To put this impact into perspective, the HB 13 fiscal 2002 appropriation for executive branch agencies, excluding the university system, was roughly $11.0 million. This appropriation was for pay raises or market adjustments (3.4 percent) and progressions within pay ranges (0.6 percent) effective for three-quarters of the fiscal year and for increases to employer contributions to group benefits of $30 per employee per month for half of the fiscal year. Roughly $1.9 million of the fiscal 2002 appropriation was for the group benefit portion of HB 13, leaving roughly $9.2 million for three-quarters of a year of pay raises and market adjustments. Annualized, this equates to roughly $12.3 million or $3.1 million per 1 percent pay increase. The annualized impact of the Broadband Plan for the 10 agencies is slightly higher than the equivalent of a 1 percent HB 13 pay increase for all non-university system executive branch employees, but was given to 1,600, or one-sixth of the corresponding 10,330 FTE funded by the HB 13 appropriation.

As Table 2 shows, the average increase for the 1,600 employees receiving pay adjustments out of 2,887 employees moving to the Broadband Plan is $1.18 per hour. Employees in all 10 agencies received adjustments; however, the percentage of those receiving adjustments to those moving to the Broadband Plan varied among agencies. Overall, roughly 55 percent of the employees received adjustments. Of all applicable agencies, the percentage of those receiving adjustments to those moving to the Broadband Plan varied from 6.6 percent in the Department of Justice to 97.7 percent in the Department of Commerce. The Department of Justice also received the lowest average hourly adjustment of $0.75 for the 17 of 256 employees receiving adjustments.
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<th>Annualized Adjustments</th>
<th>Number of Employees moving to PP 020</th>
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<td><strong>2,887</strong></td>
<td><strong>1,600</strong></td>
<td><strong>$1.18</strong></td>
</tr>
</tbody>
</table>
This increase is in contrast to the Department of Military Affairs, which adjusted salaries for 23 of 44 employees that moved to the Broadband Plan by an average of $1.95 per hour.

**Funding for the 2003 Biennium**

The 2001 legislature approved HB 13, which included funding for a 3.4 percent base salary increase (market adjustment) and a 0.6 percent pay range progression. For the 2003 biennium, agencies participating in the Broadband Plan that did not receive funding for the move must fund, out of their existing budgets, any personal service cost increases that are above this amount and are due to the Broadband Plan. During the base year for the 2003 biennium budget development, some agencies were already participating in another alternative pay and classification system developed for specific job classes that had historically seen high turnover rates and recruitment difficulties, such as information technology positions and civil engineers in the Department of Transportation (pay plan 68). As such, FWP received budget adjustments to fund movement to the Broadband Plan in its 2003 biennium appropriations (some, but not all of which was offset by reductions in other areas). Consequently, the FWP budget for the current biennium includes funding for the Broadband Plan less any vacancy savings imposed on the agency.

**Funding for the 2005 Biennium**

When the snapshot\(^{10}\) for developing the 2005 biennium base budget is taken, 12 agencies have stated their intentions to be participating, at varying levels, in the Broadband Plan. It is estimated that roughly 4,800 FTE or 38 percent of total statewide FTE would be on the Broadband Plan at the end of fiscal 2002. Since the base salary for a position (hourly salary recorded on the state human resources system) is the base amount used to develop the budget request, all positions being paid via the Broadband Plan would automatically be included in the base at the higher broadband base salary levels. In many cases, the broadband salary would be above the funding level approved by the previous legislature.

Even though pay increases that were given as part of the Broadband Plan implementation will increase personal service costs, the Office of Budget and Program Planning (OBPP) has indicated that they are developing a plan to offset the increases in personal service costs due to Broadband Plan pay increases. OBPP staff has indicated that the 2003 legislature can expect to see a method comparable to that used by FWP during the 2001 legislature to neutralize the fiscal impacts of broadbanding related pay increases. The method used by FWP involved a series of negative decision packages presented as part of the Executive Budget. These negative decision packages reduced base expenditures within the department by the amount of the increase in personal service costs attributable to market-based or compensation-based pay increases associated with the move to the Broadband Plan.

\(^{10}\) The snapshot refers to the process currently used to capture, at a point in time, typically the end of the base fiscal year, the profile of current full time equivalent (FTE) staffing funded with present law funding approved by the legislature. The snapshot records position and incumbent information such as: associated pay plan, job classification, grade level, base salary, years of service, and FTE level. The profile obtained from the snapshot is then adjusted to annualize legislative pay plan impacts for the years being budgeted. This then becomes the base present law personal service funding for programs.
IMPLEMENTATION ISSUES

Survey
In an effort to obtain data related to a move to the Broadband Plan, LFD staff sent a questionnaire (Appendix A) to agencies participating in the Broadband Plan. Among the information asked was a list of reasons for moving to the plan, a description of the framework upon which the plan was built, and a definition of success along with a description of how that success would be measured.

In addition, agencies were asked to supply documentation such as vacancy durations, applicant pool statistics, or exit interview documents that supported the existence of personnel issues that would be addressed by using the Broadband Plan. Of the 12 agencies that are either participating or plan to be participating in the Broadband Plan by fiscal year end, only 7 responded to the questionnaire in time to incorporate the data into this report.

What Problems Exist and How They Would be Addressed by Using the Broadband Plan
All of the agencies responding to the survey cited recruitment and retention as the reasons for moving employees to the Broadband Plan. However, only two agencies provided data that showed turnover information. Of the turnover data provided, none suggested that inadequate pay was a reason for an employee leaving a position.

Even though agencies cited pay as the primary reason for high turnover rates, there was no data to support these claims. Although pay can be a reason for turnover, other factors can contribute to high rates. For example, working conditions, more challenging work, more flexible hours, relocation, burnout, family reasons, management style, and promotions are other factors that often contribute to retention problems. In addition to retention, recruitment problems such as small applicant pools might not be based upon pay alone, but can be influenced by state and national labor economic conditions. Factors such as the rural nature of the State of Montana and applicants not willing to commit to a public service career could be other reasons for lack of applicants.

Framework
The survey also sought information about the framework upon which the agencies were implementing movement to the Broadband Plan.

An April 1996 study conducted by the Performance Management and Incentive Awards Division of the United States Office of Personnel Management concluded that organizations that are most successful with broadbanding have some common characteristics such as:

- The organization is reengineering work, flattening its structure, introducing cross training, eliminating functional boundaries, and increasing employees’ decision-making responsibilities
- The organization has a strong performance-based culture and an effective performance management system in place
- Top management strongly supports the broadbanding system
- Effective communication channels exist within the organization and high levels of trust and understanding exist among employees and management
Line managers are skilled at setting and managing employee pay

The organization has a good market data system in order to determine market rates for setting pay and for adjusting pay scales

In Montana, it can be argued that the multiple-agency move to broadbanding is a paradigm shift. For such a fundamental change in how employees are hired, evaluated, and paid, a solid framework should be in place prior to the change. In order for broadbanding to succeed, the above information suggests that a performance management system must be in place and integrated into the organizational culture. Also, employees and managers should understand and be skilled in using a performance management system, and line managers should be skilled at setting and managing employee pay.

According to survey responses, no agency implementing the Broadband Plan had a fully functioning competency or performance-based management systems in place at the time they moved to broadbanding. However, agencies did indicate that they were in the process of moving toward such a system.

Arguably one of the most advanced in its implementation of broadbanding, FWP indicates that as of April 15, 2002, core competencies have been established for each position and it will begin to attach pay to performance in December of 2002. The department moved to broadbanding in May of 2000. Despite its achievements, it took this department nearly two years to incorporate competencies into its performance evaluation system. Since other agencies may not be moving at this pace, it may take even longer than two years for other participating agencies to develop their systems.

How Will Success be Defined and Measured?

In the survey, agencies were asked questions about how they define and measure the success of their move to broadbanding. Among the definitions of success provided by the agencies were drops in turnover rates, increases in qualified applicants, improved communication, larger applicant pools, and increased morale among employees. In addition to defining success, agencies were asked how they would measure the success of their move to broadbanding as part of the Human Resources Competency Project.

Measuring the level of success is critical to determining if broadbanding is working as planned. Based upon the survey responses, it is unclear if or how the responding agencies plan to record the success of this project. While turnover or numbers of applicants are easy to measure, factors attributable to broadbanding for these numbers and other success factors like communication levels and morale are difficult to measure. Although many have defined success and proposed to measure success as a drop in turnover rates, they failed to show data that links low pay to turnover. Again, turnover could be a symptom of some other fundamental problem not related to pay.

INCONSISTENCY

The laws for the state employee classification and compensation system lay out the principals under which it must be administered. The laws and how they are being administered provide broad guidelines that allow a great deal of flexibility for agencies to address human resource challenges. This flexibility has led to inconsistencies across and between state agencies in how jobs are assigned to pay bands and how compensation is determined. Furthermore, state law includes conflicting directions, where one section directs that jobs are classified on job duties, responsibilities, and complexity and another section
allows jobs to be classified based on other criteria more related to labor economics, employee performance, and other unspecified criteria. LFD staff has identified three main issues that involve inconsistency:

1) Fund Availability
   As stated earlier, one component of the Broadband Plan is the use of competencies to determine employee compensation. The State Personnel Division provides competency models to agencies, but their use is optional. Agencies are free to develop their own competencies for use in determining agency employee compensation. Competencies for jobs with similar duties can and do differ from one agency to another.

   Similarly, the State Personnel Division is in charge of administering the state classification and compensation system. As such, it has developed a salary portfolio that identifies the market salary rate for all state job classes. However, agencies are allowed the flexibility to adopt different market rates for job classes based on other factors such as recruitment and retention experience, available budget, and collective bargaining.

   Further, agencies are free to determine placement of a job code within a wide pay band. The flexibility afforded to agencies regarding competency development, pay markets, and pay band placement appears to be resulting in similar jobs being compensated and evaluated at different levels and to different standards depending upon the agency and its availability of funding. Consequently, agencies may soon be competing against each other on the basis of compensation for applicants applying for similar jobs. Agencies with funding sources that allow for higher salaries could have an unfair advantage over other agencies with more restrictive funding sources such as general fund.

   Even when agencies used similar market data, pay equity issues may arise because some agencies operate with greater funding constraints (agencies funded primarily with general fund for example) than others and pay increases were not constrained. For example an accountant in agency A could be paid more than an accountant doing similar work in agency B because agency A was not limited because of funding constraints.

2) Different Market Surveys
   The labor market data used by agencies upon which pay bands were determined were not consistent. Some agencies used data obtained by their own staff. In other cases, agencies used DOA data. Thus, pay equity issues could be raised when similar workers are being paid based upon different sets of data.

3) Statutory Inconsistency
   In an attempt to provide flexibility for dealing with difficult recruitment, retention, transfer, or other exceptional circumstances for certain classes, occupations, and work units, the legislature allowed development and implementation of an alternative pay and classification plan. This flexibility that was intended to provide flexibility for unique situations is increasingly being used as the norm for entire agencies whether or not unique human resource challenges exist.

   State law (2-18-202, MCA) provides guidelines for classifying all positions in state service based on similarity of duties performed, responsibilities assumed, and complexity of work so that there
is consistent placement into classes and pay equity for positions within each class. State law (2-18-303, MCA) also allows flexibility to deviate from this statewide approach when unique situations warrant special treatment for classifying certain classes, occupations, and work units under an alternative pay and classification plan so challenging human resource issues can be addressed. The apparent conflict between these two sections of state law is one factor for the inconsistency issues identified in this report.

These inconsistency issues could lead to the state deviating from the current practice as one single employer with regard to equity for employee compensation and benefits. Except for statutorily exempt positions, the Statewide Classification System has, for the most part, provided an appearance of state government as a single employer. Furthermore, imbedded in the laws for the state classification and compensation system is the principle of equal pay for similar work. The Statewide Classified Plan provided a structure that consistently classified jobs with similar duties into similar compensation grades with relatively tight compensation ranges regardless of the agency or agency funding. Because it did not change these statutory guidelines, indications are that when the legislature approved the alternative compensation plan it did not intend to depart from these two principles (single employer and pay equity for similar work), but intended to provide a tool to help address recruitment and retention issues.

**LEGISLATIVE OPTIONS FOR INCONSISTENCY ISSUES**

**Summary of Issue**

Funding availability and salary survey inconsistencies may affect the way the Broadband Plan is being implemented and could result in differences among agencies for compensation of jobs with similar duties. All other things equal, this compensation disparity could lead to agencies competing against each other for personnel to fill similar jobs solely on the basis of compensation. Because this would move the state away from the appearance of being a single employer to one centered on salaries provided by individual agencies, the legislature may wish to consider adding standardization to the classification and compensation laws.

Options the legislature may wish to consider regarding standardization are:

- Modify state law to either: 1) provide more clear direction of when the alternative pay and classification system should be used for “certain” classes, occupations, and work units; or 2) eliminate the apparent conflict between paying employees based on “demonstrated competencies and accomplishments, on the labor market, and on other situations defined by the department” (2-18-303, MCA) and classifying positions based on “similarity of duties performed, responsibilities assumed, and complexity of work” (2-18-202, MCA)
- Recommend an interim study of the implementation of the Broadband Plan and the use of competencies in state human resources to identify issues and make recommendations regarding inequities associated with jobs that perform similar duties but which are classified and compensated differently in different agencies
- Continue to allow implementation of the Broadband Plan with the flexibility that currently exists
ADMINISTRATION FRAMEWORK

Earlier, it was stated that studies show the success of a broadbanding project is contingent upon having a solid framework to administer the elements of the project in place prior to implementation. Although some agencies responding to the LFD Broadband Plan implementation survey indicated that they were in the process of implementing a competency or performance-based management system, none of the agencies had a fully functioning system in place at the time they made the move to the Broadband Plan.

Having a framework in place prior to implementing a competency or performance-based management system would minimize risks that could result if different compensation is provided to employees that perform similar jobs. Without a formal system to administer and document justifications for compensation decisions agencies could be open to possible legal ramifications if issues of inequity are raised. Furthermore, data relevant to results achieved toward reaching the goals intended from implementing the Broadband Plan would enable agencies to more effectively manage the compensation system toward overcoming the human resources challenges.

One framework component that is essential to making and defending compensation decisions associated with a competency or performance-based pay system is an established system to communicate, evaluate, and document employee performance regarding established competency factors. Based on responses received from agencies participating in the Broadband Plan, agencies have provided competency pay adjustments to employees without fully established management systems in place to support the adjustments.

LEGISLATIVE OPTIONS FOR FRAMEWORK ISSUES

Summary of Issue

Although agencies are required by administrative rule to give regular performance appraisals, many employees indicate that they do not get them. For broadbanding that incorporates competency or performance-based pay adjustments, performance criteria must be established and performance must be measured against the performance criteria. In order to maximize the utility of the Broadband Plan, the legislature may wish to consider the following options regarding performance appraisals:

- Require that agencies participating in the Broadband Plan provide a report to the appropriate legislative committee that demonstrates that all participating employees are being evaluated based upon competencies.
- Amend current law to require appropriate and routine performance assessments and develop sanctions for non-compliance
- Continue with existing requirements, included in administrative rules, that agencies conduct performance appraisals on a regular basis

SALARY ADJUSTMENTS – RECRUITMENT AND RETENTION

As was stated earlier, along with the move to broadbanding came an increase in some employees’ pay. Anecdotal evidence exists suggesting that low pay may be the culprit in increasing turnover rates. Thus, agencies justified pay increases to reduce turnover and increase retention. However, empirical evidence showing specific examples does not exist or was not provided in survey data. Consequently, market or competency pay raises were given in addition to the 4 percent annual pay increase approved by the 2001
legislature. Although statute indicates that pay can be changed based upon the labor market and demonstrated employee skills, pay increases in addition to the pay raise levels granted by the legislature may not have been envisioned by the legislature.

Overall, it appears that among participating agencies, the framework for a competency/performance based human resources system is in the early stages of being built. In addition, agencies moving to the Broadband Plan have given immediate pay raises to employees to bring them in line with labor markets. In most agencies this appears to have been done before a system was developed to target and measure the competencies that contribute to organizational success. Instead, these tools are being developed later or in conjunction with market-based pay raises. This seems to be putting the cart before the horse in that few, if any, baselines have been developed to determine how well, or if broadbanding will work in Montana state government as part of an overarching competency-based performance management system.

**Legislative Options for Salary Based Recruitment and Retention Issues**

**Summary of Issue**

Broadbanding, as part of a competency-based human resources system, could serve as a tool for agencies to address recruitment and retention issues and reward staff for attaining and using the skills most critical to the agencies’ success. This said, broadbanding could also increase the personal services costs of an agency. Because of the potential costs and the questionable effectiveness of the tool, the legislature may wish to require that agencies using the Broadband Plan measure the success of broadbanding and competency-based pay in addressing recruitment and retention problems related specifically to pay.

Options the legislature may wish to consider regarding measures of success are:

- As part of the state pay plan bill, specify documentation and reporting requirements for evaluating the effectiveness of broadbanding and competency-based pay for addressing recruitment and retention issues
- Modify state law to require documentation and reporting requirements to the appropriate agency and/or legislative committee for evaluating the effectiveness of broadbanding and competency-based pay for addressing recruitment and retention issues
- Recommend an interim study of the implementation of the Broadband Plan and the use of competencies in state human resources
- Make no requirements to monitor measures of success of broadbanding and competency-based pay

**Legislative Control of Budget Impacts**

**Current Law Mechanisms in Place**

According to state law, the legislature is not limited in its authority to appropriate for salaries and wages. With this authority and the current processes in place, the legislature evaluates the base year personal service expenditures and adjustments to these expenditures to authorize program appropriations for
personal services in the General Appropriations Act (HB 2). The legislature also appropriates funds and specifies requirements for providing statewide compensation changes in the state pay plan bill (HB 13).

**Salary Changes are Allowed in the Interim**

State law allows salaries to be adjusted during the interim above the levels funded by the legislature. Salary increases that occur before the budget development snapshot (defined earlier) become the basis for developing budget requests for the next legislature to approve. State law allows the flexibility to provide salary adjustments for employees participating in the Broadband Plan that are above the levels funded by the legislature in the state pay plan bill. The increases attributable to the Broadband Plan would be bundled with all other statewide present law adjustments for personal services. The primary way for the legislature to know about the impacts of adjustments that are above those specifically funded by the previous legislature are for the LFD to identify them in its analysis of the Executive Budget. While state law allows this type of adjustment to an employee’s base pay, it would be extremely difficult and time consuming to accurately quantify the impacts for the legislature. Furthermore, the determination would come at a time of extreme pressure on division resources. As such the legislature may wish to establish some type of mechanism to improve the analysis process so it can make more fully informed decisions regarding personal service appropriations.

Options the legislature may wish to consider to quantify the fiscal impacts of the Broadband Plan are:
- Establish, in the state pay plan bill or permanent law, reporting requirements that would identify the portion of statewide present law adjustments attributable to Broadband Plan increases above the funding levels authorized by the previous legislature
- Make no changes to the current process

**Other Options for Legislative Control of Broadband Plan Fiscal Impacts**

As broadbanding demonstrates, the base used to develop personal services budgets can be increased by executive decisions made after the legislature adjourns. This flexibility can create difficulties and complexities that make it difficult to control personal service costs.

While current law provides a process to budget for personal service costs, the legislature may wish to approach personal service budgeting in an entirely different way than is currently done. The legislature may wish to utilize the concept of lump-sum personal services budgeting. This option is discussed in detail in the Vacancy Savings/Personal Services Budgeting Study prepared for the June 2002 LFC meeting.
APPENDIX A

Legislative Fiscal Division Broadband Plan Implementation Questionnaire
Memorandum

To: Personnel Directors

From: Gary Hamel and Greg DeWitt, Legislative Fiscal Division

Date: April 12, 2002

RE: Montana Human Resources Competency Project – Broadbanding

Legislative Fiscal Division staff members are conducting a study of the budgetary impact of the broadbanding portion of the Montana Human Resources Competency Project. Part of the study entails gathering information from participating agencies.

Accordingly, we would like you to answer the following questions related to your move to broadbanding. In addition to briefly answering the questions, we have asked for some supporting documentation. If you have any questions, do not hesitate to contact either Gary Hamel (5347) or Greg DeWitt (5392). Due to project deadlines, please provide a response no later than May 13, 2002.

QUESTIONS:

Why are you moving to broadbanding?

1) What problems or concerns were you having that prompted the move to broadbanding and how are they being addressed by the move to broadbanding? For example, if you are having difficulty recruiting and retaining employees, describe how broadbanding will address these issues. Also, please send documentation such as vacancy durations, applicant pool statistics, or exit interview documents that support the existence of problem(s).

Framework

2) Please describe the steps you took to implement broadbanding as part of a human resource competency project. For example, do you have a competency-based evaluation system in place? If yes, how long have the performance modules been in place (Please provide the date(s) of implementation)?

3) Did you have an evaluation system in place prior to moving to broadbanding? Also, do you use competencies as part of the determination for broadbanding placement determinations and employee compensation? (If yes, describe this relationship and how it will be used.)

4) If you have moved to broadbanding but are not using or do not plan to use competencies in conjunction with broadband pay, what is the methodology used to determine a job code’s or position’s placement into a pay band? Please provide a crosswalk between the position
classifications used previously in the grade-based compensation system and the classification system used with the move broadbanding.

5) If you have not completely developed your competency-based human resource program, please describe your stage of development. For example, describe where you are in terms of completing and/or implementing your competency based performance standards. In addition, if you haven’t developed the framework for pay bands, please describe the stage of completion.

6) As part of the move to broadbanding, did you give employees a “market-based” pay increase or other pay increase to bring employees in line with others doing similar work? If you have, how was it determined? For example, was the comparison made to public sector only, private sector only, or some combination of private and public sectors? If you have given such as pay raise, please provide amounts and award date.

7) If a pay “market” declines, would employees continue to be paid at a higher rate or would their pay be re-evaluated to bring them in line with market conditions?

8) If a new employee is hired after a market decline, will that employee’s pay reflect current market conditions? How will you address a pay inequity in this situation?

9) What is your plan for employee progression within a pay band? For example, if increased education is a condition of advancement, are you going to provide that education? How will it be paid for?

Success Measures

10) What are the goals and objectives you are seeking to achieve in the move to broadbanding?

11) How are you defining the success of broadbanding? Based upon this definition of success, how are you measuring the success of your move to broadbanding?

12) Will the agency move away from broadbanding if success measures are not met within a reasonable time frame?