



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
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DATE: September 23, 2017

TO: Legislative Finance Committee

FROM: Kris Wilkinson, Lead Fiscal Analyst

RE: Broadband Pay Plan Studies and Audit

Over the last five years several legislative studies and an audit have examined the broadband pay plan. The purpose of this memorandum is to summarize that activity.

At its September 2012 Legislative Finance Committee (LFC) meeting the members heard a report on Personal Services Analysis. The report included a discussion on:

- State workforce demographics
- Types of positions hired
- How salaries are generally set
 - The variation and leeway granted to agencies within the general framework of the pay plans
 - How Montana state government wages compare with other employers in Montana and in the surrounding states
 - The general parameters that determine pay
- How the state recruits and retains employees
- The impacts of retirements
- Current actions in relation to pay increases
- Budgetary implications for the 2015 biennium

To further the legislative discussion on pay the Legislative Fiscal Division included a narrative on personal services in its analysis of the 2015 biennium executive budget proposal. The narrative included:

- A comparison between legislatively established vacancy savings and the actual vacancy savings for each agency, through a comparison between budgeted and utilized hours in FY 2012
- The number of full-time equivalent (FTE) positions that were vacant at the time the 2015 biennium budget was established
- General pay increases granted during the 2013 biennium
- Entry level salaries for staff hired into positions during the interim and the % of the 2012 market rate as established by the biennial salary survey
- Staff eligible for retirement

The 2013 Legislature adopted HJR 17, a study resolution on the state pay plan. HJR 17 was the top legislative priority in the 2015 biennium, assigned to the LFC. The following reports were prepared and presented to the LFC:

- HJR 17 - [What are Pay Plans and How They Were Established](#)
- HJR 17 - [Data Related to Pay Plans](#)
- HJR 17 – [Variations Between State Agencies](#)
- Personal Services Budget Options
- HJR 17 - [Pay Plan Options](#)
- HJR 17 – [Salary Market Survey Considerations](#)
- HJR 17 – [Negotiated Settlements](#)
- State Employee Salaries and Collective Bargaining
- HJR 17 – [Summary of Legislative Options](#)
- Funding Pay Increases in FY 2013
- Personal Services Analysis
- [Summary of LC LFC 3 General revision of the Broadband Pay Plan – Draft Bill](#)
- Comparison of LC LFC3 and HB 13
- Pay Plan LC LFC3
- Pay Plan Handout

The HJR 17 study culminated in a committee bill on broadband pay and a request to the Legislative Audit Division (LAD) to conduct an audit work on the broadband pay plan. The bill was not introduced in the 2015 session, but was introduced, passed, and approved as SB 294 in the 2017 legislative session.

SB 294 included the following provisions:

- Expanded definitions to include market midpoint, occupational wage range, pay progression, and blue collar pay plan
- Refined the definition of benchmark, broadband pay plan, market midpoint, pay band
- Required the Office of Budget and Program Planning (OBPP) to approve salary increases that exceed the occupational wage range, monitor compensation within the parameters of the occupational wage range, and report to the LFC on employees that have base salaries exceeding the occupational wage range
- Require that the Department of Administration (DOA) approve reclassification of occupation or related job evaluation factors prior to agencies making the changes
- Required that an employee's salary fall within the occupational wage range of the employee's occupation

For the 2017 session, the Legislative Fiscal Division update publications provided to legislative budget committees by offering expanded detail related to personal services. This included program level detail of the following:

- State share of health insurance
- Executive implementation of the 2015 pay increase at 3%
- Cost to fully fund 2015 legislative authorized FTE
- Other personal services adjustments including broadband pay increases, changes in payroll taxes, or differences between salaries due to turn-over

In January 2017, LAD released its audit report, Oversight of Discretionary Pay Changes for State Employees. The audit identified issues with the consistent application and support of discretionary pay changes to state employees allowed under the broadband pay plan. In FY 2015 LAD reviewed a sample of 200 pay changes and found that 173 were not properly supported.

Instances that led to unsupported pay changes included agency pay plan that were contrary to state policy, plans that did not include criteria for the types of changes used by the agency, a lack of oversight of agency pay plans, pay changes, and entry of pay change information into the state accounting system. LAD stated this could be remedied by a more proactive oversight role for DOA. The audit report made four recommendations related to enhancing oversight and accountability for discretionary pay changes and included that the Department of Administration:

- Take an active role in the pay change process by:
 - Developing and implementing additional policy to determine what pay change types are available to agencies
 - Establishing minimum levels of documentation for support and justification of pay changes
 - Developing and providing training to agency staff on proper pay change procedure, including how to properly support and implement pay changes based on updated state pay change policies
- Condense and simplify pay change options available in the Statewide Accounting, Budgeting, and Human Resources System
- Both:
 - Establish and implement a review process for agency pay plans based on state policy to determine if pay plans meet minimum requirements for pay change support
 - Assist agencies in establishing measurements for the success of their pay plans
- Take a more active role in the pay change process, including developing and implementing an annual review process of pay changes to determine if they are properly supported based on agency policy, updated state policy, and union collective bargaining agreements

None of the LAD recommendations required changes to current statute.

In the 2017 legislative session the LFD again included detailed personal services information for consideration by the budget committees. The LFD calculated the expected personal services budget using the 2017 base budget as the starting point as a comparison to the executive personal services request. Incremental increases were based on legislative actions such as the pay plan, workers' compensation, longevity increase, health benefit increases, and other expected changes. Information included for personal services present law calculations were:

- Cost of additional 2% vacancy savings
- Broadband pay adjustments
- Benefits and taxes on pay adjustments
- Other changes such as salary differences due to employee turnover, overtime, differential pay, and per diem

This summarizes legislative reports, studies, budgetary information and audits between FY 2012 and FY 2017. For further information please contact Kris Wilkinson, Lead Fiscal Analyst, with the Legislative Fiscal Division.