

NORTH CAROLINA GENERAL ASSEMBLY  
1977 SESSION

CHAPTER 1031  
SENATE BILL 772

AN ACT TO DETERMINE THE VALUE AND PRACTICALITY OF PROVIDING  
INCENTIVE PAY FOR STATE EMPLOYEES FOR GAINS IN ECONOMY AND  
EFFICIENCY IN THE RENDERING OF GOVERNMENTAL SERVICES.

Whereas, private business and industry have long recognized the value of rewarding the outstanding performances of their employees through incentive pay, bonuses and the granting of special benefits and privileges, with the result that productivity is increased and savings are realized; and

Whereas, no such provisions exist for rewarding State employees for outstanding efforts which result in gains in productivity and the elimination of waste; and

Whereas, it is fitting that the State determine, on an experimental basis, the value and practicality of providing such rewards; Now, therefore,

The General Assembly of North Carolina enacts:

**Section 1.** Chapter 126 of the General Statutes is hereby amended by adding a new Article 10 to read as follows:

"ARTICLE 10.

"Committee for Review of Applications for Incentive Pay for State Employees.

"§ 126-46. There is hereby created the Committee for Review of Applications for Incentive Pay for State Employees, hereinafter referred to as 'the Committee'. The committee shall consist of the Secretary of Administration, who shall act as chairman; the State Auditor; the State Treasurer; the State Budget Officer; the State Personnel Director; the State Purchasing Officer; the Director of the Administrative Analysis Division of the Department of Administration; and the State Disbursing Officer. The Governor, Lieutenant Governor and Speaker of the House of Representatives shall each also appoint one person who has experience in administering incentive as used in industry.

"§ 126-47. With the exception of units within the General Assembly, the Governor's Office, the Lieutenant Governor's Office, the Department of Administration, the Department of the State Treasurer, and the Department of the State Auditor, any unit of State government with an identifiable, self-contained budget may make application to the committee for selection as a candidate for the award of incentive pay to its employees. Such applications must be submitted no later than March 31, 1978, for the fiscal year beginning July 1978, and must have the approval of the head of the State department within which the unit is located.

Applications shall be in the format specified by the committee and shall contain such information as it may require, including but not limited to those evaluation components developed by the applying unit which will provide quantitative measures of program output and performance.

With the assistance of the Administrative Analysis Division of the Department of Administration and the staff of the State Auditor, the committee shall evaluate the applications submitted; and from those proposals which are considered to be reasonable and practical, and which are found to include developed performance indicators which lend themselves to a judgment of success or failure, the committee shall select no more than three units to participate

in the pilot incentive pay program for the fiscal year 1978-79; provided, however, that each selection shall require the affirmative vote of at least six members of the committee.

"§ 126-48. To qualify for the award of incentive pay to its employees, a unit selected must demonstrate to the satisfaction of the committee that it has operated during the 1978-79 fiscal year at less cost than the average of the two immediately preceding fiscal years, and either with an increase in the level of services rendered or with no decrease in the level of services rendered.

The committee shall satisfy itself that the reduction in the cost of operation is real and not merely apparent, and that it is not, in whole or in part, the result of:

- (1) chance;
- (2) a lowering of the quality of the service rendered, as for example a lowering of quality of food served;
- (3) reduced pass-through or transfer expenditures;
- (4) receipts realized in excess of amounts budgeted;
- (5) nonrecurrence in 1978-79 of expenditures which were single outlay, or one-time expenditures, in either of the two preceding fiscal years;
- (6) reductions in the prices of supplies, materials, and equipment used, or reductions in the cost of service contracts;
- (7) a lowering of salary requirements as the result of employee turnover;
- (8) failure to reward deserving employees through promotion, reclassification, award of merit salary increments, or salary increases authorized by salary range revisions;
- (9) postponement of normal purchases and/or repairs to a future fiscal year;
- (10) stockpiling inventories in the 1976-77 and 1977-78 fiscal years so as to reduce requirements in the 1978-79 fiscal year;
- (11) substitution of federal funds, other receipts, or non-State funds for State appropriations;
- (12) unreasonable postponement of payments of accounts payable until the 1979-80 fiscal year;
- (13) shifting of expenses to another unit of government, as for example the use of supplies from another unit's inventory;
- (14) any other practice, event, or device which the committee decides has caused a distortion which makes it appear that a savings has occurred when in fact the cost reduction is not attributable to the efficiency and economy of the unit.

Conversely, the committee shall consider as legitimate savings those reductions in expenditures made possible by such items as the following:

- (1) reductions in overtime;
- (2) elimination of consultant fees;
- (3) less temporary help;
- (4) elimination of budgeted positions;
- (5) improved methods of communication;
- (6) improved systems and procedures;
- (7) better deployment and utilization of manpower;
- (8) elimination of unnecessary travel;
- (9) elimination of unnecessary participation in national and regional conferences;
- (10) elimination of unnecessary printing and mailing;
- (11) elimination of unnecessary payments for advertising, memberships, dues, subscriptions, etc.;
- (12) elimination of waste, duplication, and operations of doubtful value;

(13) improved space utilization;

(14) any other items considered by the committee as representing true savings.

"§ 126-49. At the conclusion of the 1978-79 fiscal year, the committee shall compare the expenditures for that year of each unit selected against the average expenditures of that unit for the two immediately preceding fiscal years and, after making such adjustments as in its judgment are required to eliminate distortions, shall determine the amount, if any, that the unit has reduced its cost of operations in the 1978-79 fiscal year. If the committee shall also determine that in its judgment there has been no reduction in the level and quality of the services rendered by the unit, it shall award and is hereby authorized to award, with the approval of the Advisory Budget Committee, to the employees of that unit a sum not in excess of twenty-five percent (25%) of the amount determined to be the true cost reduction. The amount awarded shall be divided and distributed in equal shares to the employees of the unit, except that employees who worked for that unit less than the full 12 months of the 1978-79 fiscal year shall receive only a pro rata share based on fraction of the year worked for that unit. The source of funds for this incentive pay shall be the unspent appropriations for the unit which would otherwise have reverted at the end of the 1978-79 fiscal year.

"§ 126-50. The Secretary of Administration shall cause to be prepared and submitted to the General Assembly two comprehensive status reports on the committee's activities, decisions, awards, and recommendations with respect to the employee incentive pay program. The first such report shall be submitted to the 1979 General Assembly no later than February 1, 1979, and shall cover the first half of the 1978-79 fiscal year. If the General Assembly meets in 1980, the second report, covering the entire 1978-79 fiscal year, shall be submitted no later than February 1, 1980; if the General Assembly does not meet in 1980, the second report shall be submitted no later than February 1, 1981."

**Sec. 2.** The provisions of this act shall become effective July 1, 1977, and shall remain in effect through June 30, 1981.

In the General Assembly read three times and ratified, this the 1st day of July, 1977.