

GENERAL ASSEMBLY OF NORTH CAROLINA  
1983 SESSION

CHAPTER 871  
SENATE BILL 437

AN ACT TO PROVIDE INCENTIVE PAY FOR STATE EMPLOYEES FOR GAINS  
IN ECONOMY AND EFFICIENCY IN THE RENDERING OF  
GOVERNMENTAL SERVICES.

The General Assembly of North Carolina enacts:

Section 1. Article 11 of Chapter 126 of the General Statutes is rewritten to read:

"ARTICLE 11.

"Committee For Incentive Pay For State Employees.

**"§ 126-64. Committee established.**—There is hereby created the Committee for Incentive Pay for State Employees, hereinafter referred to as 'the Committee'. The committee is hereby empowered and authorized to adopt policies and procedures to establish and administer an incentive pay program for State employees. The committee shall consist of seven members as follows:

- (1) The Secretary of Administration who shall be the chairperson.
- (2) A representative from the Office of State Budget.
- (3) A representative from the Office of State Personnel.
- (4) A department head appointed by the Governor.
- (5) A non-State government representative appointed by the Governor.
- (6) A non-State government representative appointed by the General Assembly upon the recommendation of the President of the Senate in accordance with G.S. 120-121.

(7) A non-State government representative appointed by the General Assembly upon the recommendation of the Speaker of the House of Representatives in accordance with G.S. 120-121. Each of the non-State government representatives shall have experience in administering incentive pay programs as used in industry. Vacancies in appointments made by the General Assembly shall be filled in accordance with G.S. 120-122.

**"§ 126-65. Application for incentive awards.**—With the exception of agencies and offices within the General Assembly, the Governor's Office, the Lieutenant Governor's Office, and the Department of the State Auditor, any agency or office of State government (i) having an identifiable self-contained budget, or (ii) having its financial records maintained according to an accounting system which identifies to the satisfaction of the State Auditor the expenditures and receipts properly attributable to that agency or office may make application to the committee for selection as a candidate for the award of incentive pay to its employees. Such application must be submitted at

least three months prior to the beginning of any fiscal year 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 agency or office which will provide quantitative measures of program output and performance.

The committee shall evaluate the applications submitted. 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 the agencies and offices to participate in the incentive pay program for the fiscal year.

**"§ 126-66. Qualifications.**—(a) To qualify for the award of incentive pay to its employees, an agency or office selected must demonstrate to the satisfaction of the committee that it has met both of the following two criteria in its operations during the fiscal year, after adjustment for inflation or deflation:

- (1) Operated at a lower 'unit cost.' Unit cost shall be defined as expenditures in dollars to complete a measurable unit of work.
  - a. For first time participants the unit cost for the participating year shall be compared to either the unit cost for the immediately preceding fiscal year or a standard unit cost approved by the committee.
  - b. For participants with one or more years in the program, the unit cost for the participating year shall be compared to either the average unit cost of prior successful participating years in the program or a standard unit cost approved by the committee; and
- (2) Operated at no greater total dollar expenditures, except:
  - a. In a case where unit cost(s) are reduced but total expenditures increase due to the agency or office maintaining its level of service; or
  - b. In a case where the legislature or department head specifically mandates an increase in the workload.

(b) The committee shall satisfy itself that the claimed unit dollar cost of operation is real and not merely apparent, and that it is not, in whole or in part, the result of:

- (1) a lowering of the level or quality of the service rendered;
- (2) reduced pass-through on transfer expenditures;
- (3) receipts realized in excess of amounts budgeted;
- (4) nonrecurrence of expenditures which were single outlay, or one-time expenditures, in the preceding fiscal year;
- (5) failure to reward deserving employees through promotions, reclassification, award of merit salary increments, or salary increases authorized by salary range revisions;
- (6) postponement of normal purchases and repairs to a future fiscal year;
- (7) stockpiling inventories in the immediately preceding fiscal year so as to reduce requirements in the eligible fiscal year;

- (8) substitution of federal funds, other receipts, or non-State funds for State appropriations;
- (9) unreasonable postponement of payments of accounts payable until the fiscal year immediately following the eligible fiscal year;
- (10) shifting of expenses to another agency or office of government;
- (11) any other practice, event, or device which the committee decides has caused a distortion which misrepresents that a savings or increase in level of services has occurred.

(c) Conversely, the committee may consider, but is not limited to considering, 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 development and utilization of manpower;
- (8) elimination of unnecessary travel;
- (9) elimination of unnecessary printing and mailing;
- (10) elimination of unnecessary payments for advertising, memberships, dues, subscriptions, etc.;
- (11) elimination of waste, duplication, and operations of doubtful value;
- (12) improved space utilization;
- (13) proven cost reduction techniques;
- (14) any other items considered by the committee as representing true savings.

**"§ 126-67. Awards.**—At the conclusion of the eligible fiscal year, the committee shall compare the unit dollar expenditures for that year of each agency or office selected against the base year(s) data and, after making such adjustments as in its judgment are required to eliminate distortions, shall determine the amount, if any, that the agency or office has reduced its unit dollar cost of operations or increased its level of services in the eligible fiscal year. Adjustments to eliminate distortions may include any legislative increases in employee compensation and inflationary increases in the cost of services, materials and supplies. If the committee shall also determine that in its judgment an agency or office qualifies for award, it is hereby authorized to award, after consultation with the Advisory Budget Committee, to the employees of that agency or office a sum not in excess of twenty-five percent (25%) of the amount determined to be the total unit dollar savings to the State for the level of services rendered. Incentive pay awards provided under this Chapter shall be exempt from retirement contributions and shall not be included for the purpose of computing a retirement allowance under any public retirement system of this State. The amount awarded shall be divided and distributed in equal shares to the employees of the agency or office except that employees who

worked for that unit less than the full 12 months of the fiscal year shall receive only a pro rata share based on the fraction of the year to the day worked for that agency or office. Employees leaving voluntarily to work outside of State government, or employees dismissed for cause will forfeit their share. Funds for this incentive pay shall be drawn from the agency's or office's principal department's ending balance for the eligible fiscal year.

**“§ 126-68. Annual report.**—The Secretary of Administration shall cause to be prepared and submitted to the General Assembly a comprehensive annual status report on the committee's activities, decisions, awards, and recommendations with respect to the employee incentive pay program."

Sec. 2. Section 3 of Chapter 945, Session Laws of 1979, is amended by deleting "and will expire July 1, 1984", and inserting in lieu thereof "and will expire July 1, 1989".

Sec. 3. G.S. 120-123(16) is amended by deleting the words "Review of Applications for".

Sec. 4. This act is effective upon ratification.

In the General Assembly read three times and ratified, this the 20th day of July, 1983.