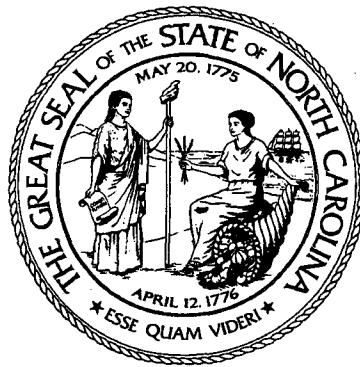


LEGISLATIVE RESEARCH COMMISSION

STATE EMPLOYEES AND TEACHERS COMPENSATION



REPORT TO THE  
2000 SESSION OF THE  
1999 GENERAL ASSEMBLY  
OF NORTH CAROLINA

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**TABLE OF CONTENTS**

LETTER OF TRANSMITTAL .....i

LEGISLATIVE RESEARCH COMMISSION MEMBERSHIP .....ii

PREFACE.....1

COMMITTEE PROCEEDINGS .....3

FINDINGS AND RECOMMENDATIONS.....9

APPENDICES

APPENDIX A  
RELEVANT PORTIONS OF THE 1999 STUDIES BILLS, CHAPTER 395  
OF THE 1999 SESSION LAWS (FIRST SESSION, 1999).....15

HOUSE BILL 39.....17

HOUSE JOINT RESOLUTION 1158 .....21

SENATE JOINT RESOLUTION 1031 .....23

APPENDIX B  
MEMBERSHIP OF THE LRC COMMITTEE ON  
STATE EMPLOYEES AND TEACHERS COMPENSATION .....25

APPENDIX C  
STATUTES AND RULES IN NORTH CAROLINA ON  
COMPENSATION OF STATE EMPLOYEES (G.S. 126-7) .....27

APPENDIX D  
LEGISLATIVE PROPOSAL.....33  
A BILL TO BE ENTITLED AN ACT AMENDING THE EMPLOYEE  
COMPENSATION AND PERFORMANCE EVALUATION PROVISIONS OF  
THE STATE PERSONNEL ACT, CHAPTER 126 OF THE GENERAL  
STATUTES, AND APPROPRIATING FUNDS FOR FULL IMPLEMENTATION  
OF THE STATE COMPENSATION PLAN  
SECTION-BY-SECTION ANALYSIS OF THE BILL .....43

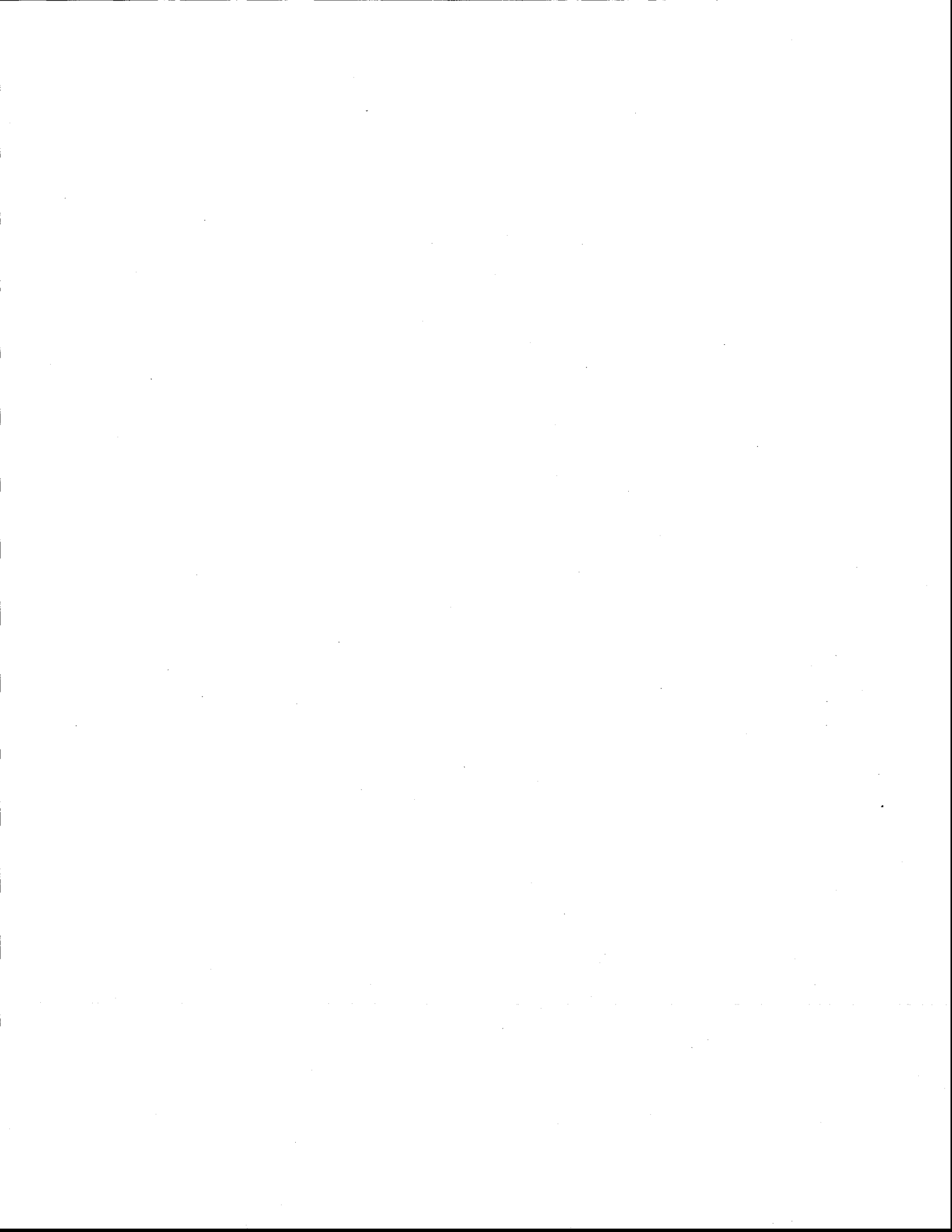
APPENDIX E  
SUMMARY OF STATE FUNDED POSITIONS .....47

INVESTING IN STATE EMPLOYEES - OSP/SEANC FINAL REPORT .....49

ESTIMATED FY 2000-2001 COST ANALYSIS OF SEANC PAY PLAN PROPOSAL.....63

OSP'S ANALYSIS OF THE PERFORMANCE MANAGEMENT SYSTEM .....65

SEANC'S RESPONSE TO BILL BEING CONSIDERED BY COMMITTEE .....69



STATE OF NORTH CAROLINA  
LEGISLATIVE RESEARCH COMMISSION  
STATE LEGISLATIVE BUILDING  
RALEIGH, NC 27601



May 4, 2000

TO THE MEMBERS OF THE 1999 GENERAL ASSEMBLY (REGULAR SESSION 2000):

The Legislative Research Commission herewith submits to you for your consideration its 2000 interim report on State employees compensation. The report was prepared by the Legislative Research Commission's Committee on State Employees and Teachers Compensation pursuant to G.S. 120-30.17(1).

Respectfully submitted,

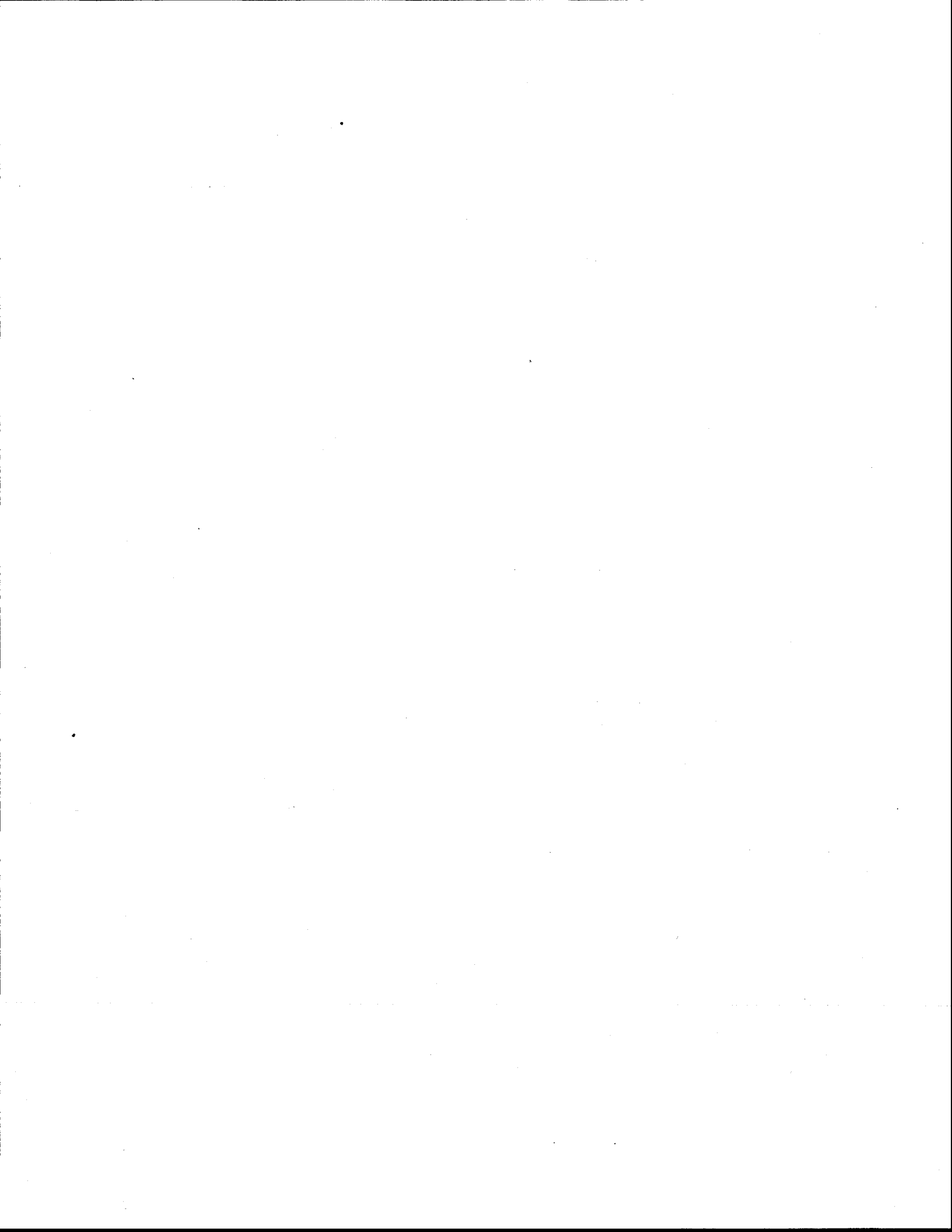
Handwritten signature of James B. Black in cursive script.

James B. Black  
Speaker of the House

Handwritten signature of Marc Basnight in cursive script.

Marc Basnight  
President Pro Tempore

Cochairs  
Legislative Research Commission



1999 - 2000

**LEGISLATIVE RESEARCH COMMISSION**

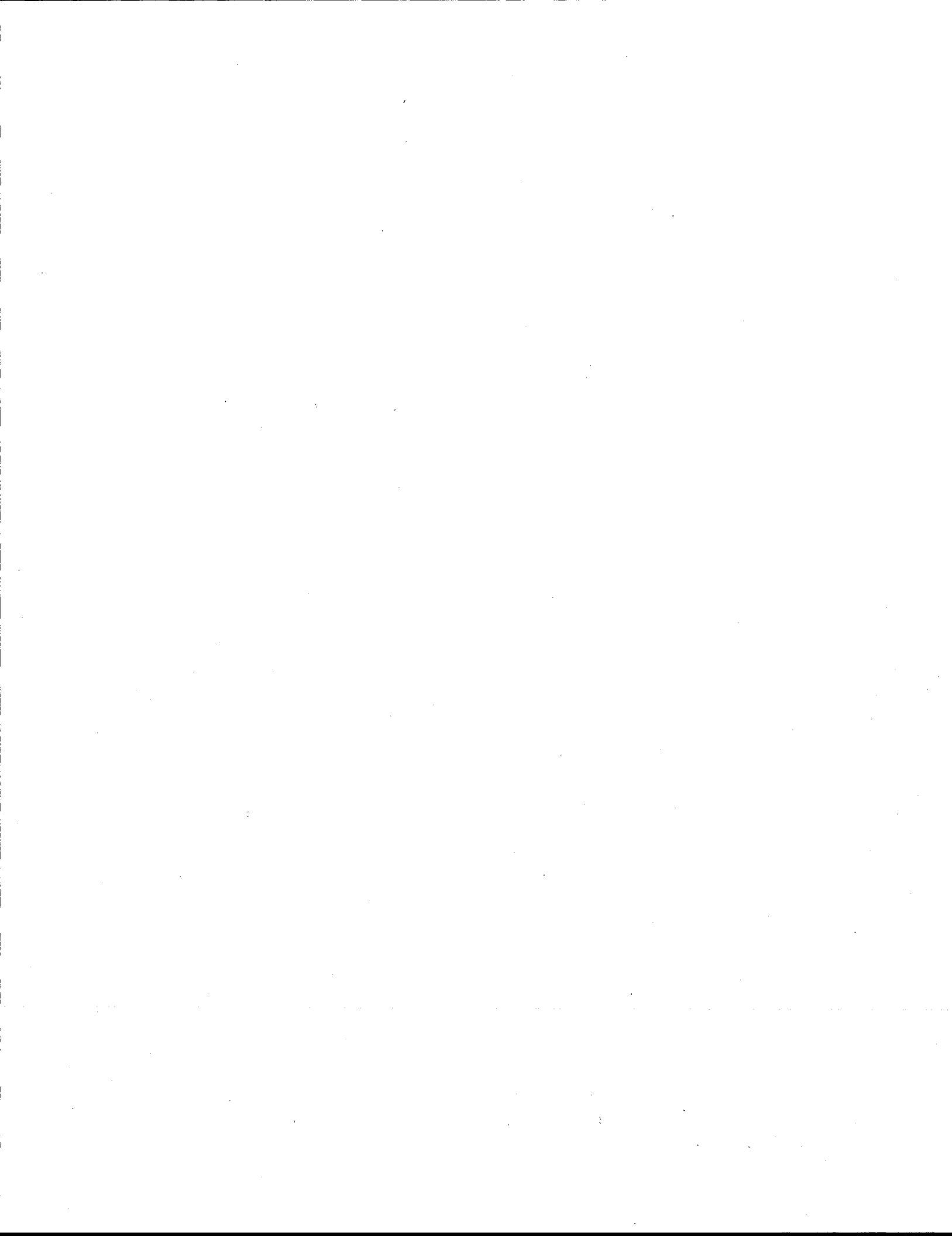
**MEMBERSHIP**

President Pro Tempore of the Senate  
Marc Basnight, Cochair

Speaker of the House of Representatives  
James B. Black, Cochair

Senator Austin M. Allran  
Senator Linda D. Garrou  
Senator Jeanne H. Lucas  
Senator R.L. "Bob" Martin  
Senator Ed N. Warren

Rep. James W. Crawford, Jr.  
Rep. Beverly M. Earle  
Rep. Verla C. Insko  
Rep. William L. Wainwright  
Rep. Steve W. Wood





## PREFACE

The Legislative Research Commission, established by Article 6B of Chapter 120 of the General Statutes, is the general purpose study group in the Legislative Branch of State Government. The Commission is cochaired by the Speaker of the House and the President Pro Tempore of the Senate and has five additional members appointed from each house of the General Assembly. Among the Commission's duties is that of making or causing to be made, upon the direction of the General Assembly, "such studies of and investigations into governmental agencies and institutions and matters of public policy as will aid the General Assembly in performing its duties in the most efficient and effective manner" (G.S. 120-30.17(1)).

The Legislative Research Commission, prompted by actions during the 1998 Session and 1999 Sessions, has undertaken studies of numerous subjects. These studies were grouped into broad categories and each member of the Commission was given responsibility for one category of study. The Cochairs of the Legislative Research Commission, under the authority of G.S. 120-30.10(b) and (c), appointed committees consisting of members of the General Assembly and the public to conduct the studies. Cochairs, one from each house of the General Assembly, were designated for each committee.

The study of State employees compensation was authorized by Section 2.1 (1)a and Section 2.1 (1)d of Chapter 395 of the 1999 Session Laws (Regular Session, 1999). Part II of Chapter 395 allows for studies authorized by that Part for the Legislative Research Commission to consider House Bill 39 for the study of a defined contribution pension plan for State employees and teachers, and to consider House Joint Resolution 1158 and Senate Joint

Resolution 1031 for the study of the State Employee Comprehensive Compensation System, in determining the nature, scope and aspects of the study. Section 2 of House Bill 39 states in part that the study shall "examine the feasibility and desirability of establishing a defined contribution pension plan to provide portable retirement benefits for teachers and State employees." Section 1 of House Joint Resolution 1158 and Senate Joint Resolution 1031 states, "The Legislative Research Commission may study the State Employee Comprehensive Compensation System. In the course of the study, the Commission shall consider whether the State Employee Comprehensive Compensation System adequately compensates State employees, enables them to move through their pay grades, rewards outstanding performance, and ensures fair and equitable treatment and evaluations of employees in all classifications." The relevant portions of Chapter 395, House Bill 39, House Joint Resolution 1158 and Senate Joint Resolution 1031 are included in Appendix A.

The Legislative Research Commission authorized this study under authority of G.S. 120-30.17(1) and grouped this study in its Governmental Personnel Grouping area under the direction of Senator Jeanne Hopkins Lucas. The Committee was chaired by Senator Eric M. Reeves and Representative Ruth M. Easterling. The full membership of the Committee is listed in Appendix B of this report. A committee notebook containing the committee minutes and all information presented to the committee will be filed in the Legislative Library by the end of the 1999-2000 biennium.

## COMMITTEE PROCEEDINGS

The Legislative Research Commission's State Employees and Teachers Compensation Committee met three times prior to the 2000 Regular Session of the 1999 General Assembly. The Committee was charged with looking at the feasibility and desirability of a defined contribution pension plan for State employees and teachers, and at the State employee Comprehensive Compensation System. The committee elected to focus on the State employee Comprehensive Compensation System.

The following is a brief summary of the Committee's proceedings. Detailed minutes and information from each Committee meeting are available in the Legislative Library.

### February 14, 2000

The initial meeting of the State Employees and Teachers Compensation Committee was twice rescheduled -- due to an extra session of the General Assembly to address the State's needs in response to the impacts of Hurricane Floyd, and due to inclement weather. The first meeting was held on February 14, 2000 at 9:00 a.m. in Room 1124 of the Legislative Building. Senator Lucas, LRC member assigned to the committee, opened the meeting and Senator Eric Reeves, was the presiding cochair.

Staff member Mark Trogon, Fiscal Analyst with the Fiscal Research Division, presented a detailed chart entitled "Summary of State Funded Positions" (See Appendix E.) This chart was

provided as background information relative to subsequent presentations by the State Employees Association of North Carolina, the Office of State Personnel, and other committee staff.

Mr. Trogdon noted that state positions are divided into two categories: SPA positions, which are positions subject to the State Personnel Act and affected by the Comprehensive Compensation System, and non-SPA positions, a catchall term for all other state funded positions funded out of General Fund dollars and other receipts. The chart shows 91,126 positions subject to the State Personnel Act, which is roughly 36 percent of the positions funded by the State (255,954 total positions are funded). Sixty thousand positions are funded out of the General Fund at a budgeted salary cost of \$1,968,409,594. For every one percent increase in salary awarded employees in SPA positions, \$20 million in additional appropriations is needed. Sixteen thousand positions are funded out of the Highway Fund at a budgeted salary cost of \$412,806,618. For Highway Fund positions, a one percent increase costs another \$4 million in additional appropriations. The approximately fifteen thousand remaining positions are receipts supported.

Mr. Ronald Penny, State Personnel Director, gave an overview of the work force issues affecting State government. He noted that the Triangle has approximately a 1.7 percent unemployment rate, making it difficult for the State to recruit and retain employees in the State's greater capital area. Mr. Penny cited as an example how difficult it is to attract computer personnel to State government jobs because the private sector is also trying to attract the same people. He said that on an average day, 86,000 people come to work for the State of N.C. Mr. Penny noted the State workforce is different from the private sector because it is so varied. The various job groups range from physicians to correctional officers, from engineers to health care technicians, and from lawyers to transportation workers.

Mr. Gary Wiggins, OSP Compensation and Benefits Manager, discussed an "History and Overview of the State Compensation System." He covered the State Salary Schedule, how employees move through the salary ranges, and presented an overview and history of both the Comprehensive Compensation System and the Performance Management System.

Staff member Theresa Matula, Legislative Analyst with the Research Division, presented the history and an overview of the Comprehensive Compensation System. Mrs. Matula explained that the Comprehensive Compensation System originated out of a recommendation to the 1993 General Assembly from the Study Commission on the State Personnel System, and it is outlined in G.S. 126-7. She stated that the System is designed to tie salary increases to the performance of each State employee and consists of three components: Career Growth Recognition Award, Cost-of-Living Adjustment, and Performance Bonus.

Mr. Troy Green, Executive Director of the State Employees Association of North Carolina (SEANC), stated that the Association represents approximately 58,000 active and retired State employees and that SEANC had long sought a study of the pay plan. Following additional remarks, he introduced Mr. Mark Dearmon and Ms. Valerie Ford, co-chairs of the OSP/SEANC Pay Plan Study Committee. Mr. Dearmon and Ms. Ford presented the background and recommendations contained in the OSP/SEANC report, "Investing in State Employees." (See Appendix E.)

Ms. Katherine Joyce, SEANC Legislative Affairs Specialist, told the committee that SEANC had taken the OSP/SEANC Study Report's recommendations and drafted a rewrite of the statute, and she requested that this committee consider this rewrite for introduction in the upcoming short session. She then summarized SEANC's proposed legislative changes.

Next, Mr. Gary Wiggins from the Office of State Personnel, presented additional information on "Compensation and Benefits, Trends and Recommendations." His presentation focused on a

comparison of average salaries among southeastern State governments. According to information he presented, North Carolina ranks fifth in average salaries with Virginia, Kentucky, South Carolina, and Alabama ranking higher. The information shows North Carolina's cost-of-living is among the highest in the southeast and he noted that cost-of-living and availability of workers, as well as growth of industry, are the driving factors behind pay increases. Mr. Wiggins then compared State government base-pay increases to market base-pay increases and stated the ideal situation would be for State government pay increases to match market pay increases; however, every year going back to 1991, there has been a deficit. He added that average market raises generally go up more than the cost-of-living.

The Committee decided to meet again in March to hear a cost analysis and to review draft legislation to be prepared by Committee staff.

### **March 28, 2000**

At the Committee's second meeting, held on March 28, 2000, Committee staff prepared a cost analysis of the SEANC proposal for changes in the Comprehensive Compensation System, as well as draft legislation reflecting the SEANC proposal.

Ms. Phyllis Pickett, Staff Attorney, gave a section-by-section explanation of the draft legislation. The SEANC proposal included changing the name of the Comprehensive Compensation System. Staff indicated a concern that any name change should not be confusing and the Committee deferred a decision about the name until the next meeting. Ms. Pickett noted that the draft included language providing that the Consumer Price Index (CPI) be used to automatically trigger annual cost-of-living adjustments for SPA employees. The draft provides

that the cost-of-living adjustment and the performance bonus shall be part of the annual expansion budget, but the career growth recognition award would become part of the continuation budget. This would be a substantial change from current law. With regard to SEANC's changes concerning the performance evaluation rating scale, the draft bill reflected flexibility in rating scales, as opposed to using the current five level rating scale, or a three level scale that could be developed. The Committee deferred until its next meeting any decision on the scope of changes relating to the rating scale.

Mr. Mark Trogon, Fiscal Analyst, presented an estimated FY 2000-2001 cost analysis of the draft legislation reflecting the SEANC proposals. His cost estimates included both Highway Fund and General Fund appropriations. Mr. Trogon stated that the total cost for SEANC's four main proposals would be \$571 million from the General Fund for both SPA and non-SPA employees, and \$47 million from the Highway Fund for combined SPA and non-SPA employees.

Committee members discussed the benefits of adopting a three level rating scale as opposed to a five level scale. They expressed concerns about maintaining consistency across State departments. The Committee considered the merits of recommending funding for a five percent (5%) salary increase to account for increases in previous cost-of-living adjustments that had failed to match the CPI. Even though the funds may not be available this year, the Committee voiced firm support for the funding of the 5% proposal.

The next meeting of the Committee was set to include adoption of an interim report to the Legislative Research Commission. The Committee also planned to accept additional information from SEANC and/or OSP regarding changes in the rating scale.

**April 20, 2000**

The last meeting of the Committee prior to the convening of the 2000 Session took place at 9:00 a.m. on April 20, 2000 in Room 1124 of the Legislative Building. During this meeting the Committee discussed and approved the interim report to be submitted to the Legislative Research Commission.



## FINDINGS AND RECOMMENDATIONS

### FINDINGS

1. The Comprehensive Compensation System originated out of a recommendation to the 1993 General Assembly from the Study Commission on the State Personnel System. It was introduced as Senate Bill 84, became effective July 18, 1993, and can be found in Chapter 388 of the 1993 Session Laws.
2. The Comprehensive Compensation System is outlined in G.S. 126-7 and is designed to tie salary increases to the performance of each State employee subject to Chapter 126.
3. Approximately 91,126 positions are subject to the State Personnel Act and to the Comprehensive Compensation System. These 91,126 positions represent approximately 36% of the 255,954 State funded positions.
4. The 164,828 positions that are not subject to Chapter 126 or the Comprehensive Compensation System are primarily located in North Carolina's community colleges, universities, and public schools.
5. The Comprehensive Compensation System consists of three components: Career Growth Recognition Award, Cost-of-Living Adjustment, and Performance Bonus. Currently, the

Statute states that all three components shall be based on annual performance appraisals of all employees conducted by each department, agency, and institution. Under the authority of G.S. 126-4(8), the State Personnel Commission adopts policy and regulations for performance appraisal.

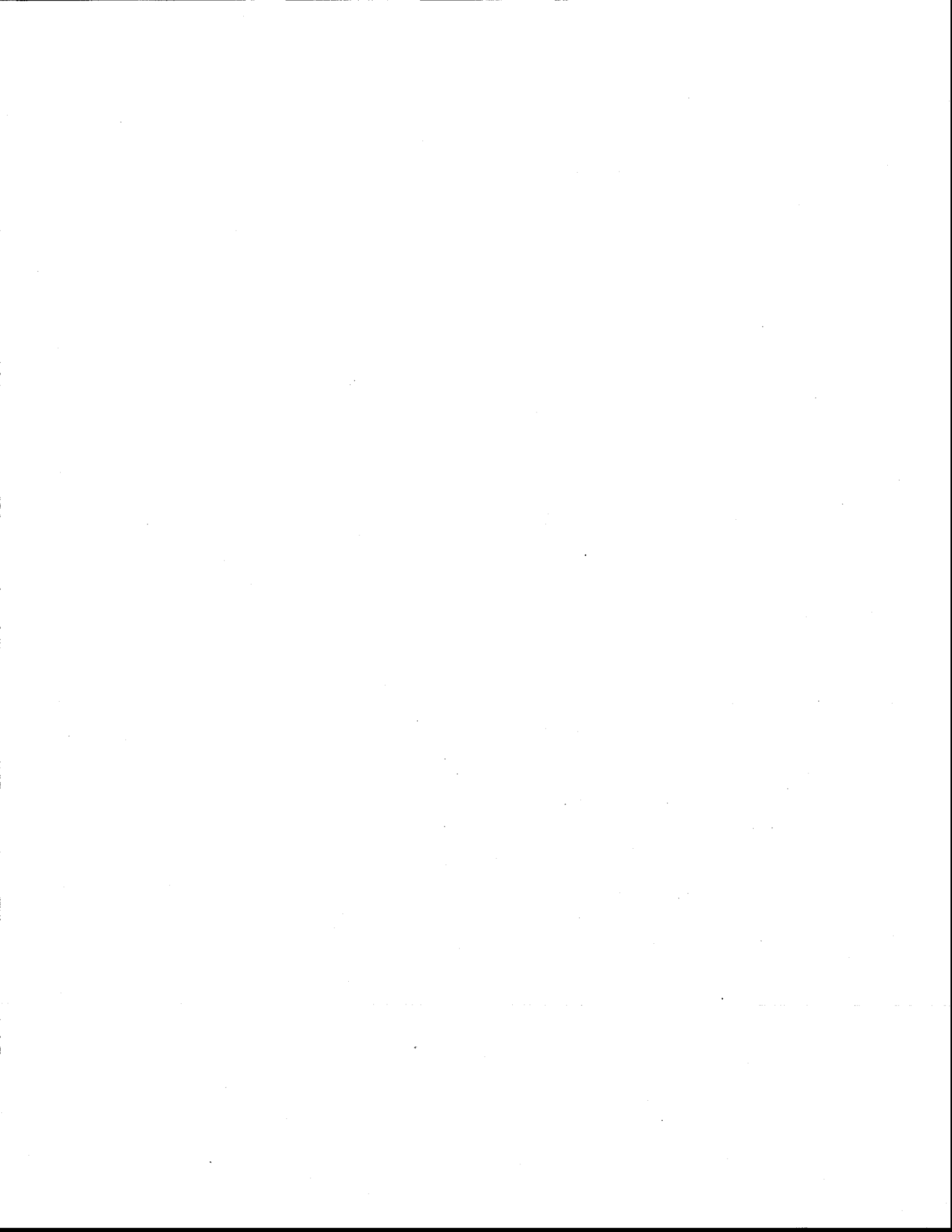
6. North Carolina State Government has an obligation to attract and retain a competent workforce. This workforce is very diverse as it includes a broad range of jobs such as: researchers, physicians, correctional officers, engineers, health care technicians, lawyers, and transportation employees.
7. The following factors are making recruitment and retention of State employees increasingly difficult:
  - Approximately 1.7% unemployment rate in the Triangle.
  - Increased labor market competition.
  - Devaluation of State's benefit packages relative to some competitors.
  - State salaries increasing at a slower rate than private sector counterparts.
8. Although the Comprehensive Compensation System was enacted in 1993, all three components were not fully funded until 1998.

## **RECOMMENDATIONS**

Based on the findings, the Committee recommends the following proposed legislation:

### **Proposal**

A BILL TO BE ENTITLED AN ACT AMENDING THE EMPLOYEE COMPENSATION AND PERFORMANCE EVALUATION PROVISIONS OF THE STATE PERSONNEL ACT, CHAPTER 126 OF THE GENERAL STATUTES, AND APPROPRIATING FUNDS FOR FULL IMPLEMENTATION OF THE STATE COMPENSATION PLAN.



## APPENDICES



APPENDIX A

CHAPTER 395  
1999 Session Laws (1999 Session)

AN ACT TO AUTHORIZE STUDIES BY THE LEGISLATIVE RESEARCH COMMISSION, TO CREATE VARIOUS STUDY COMMISSIONS, TO DIRECT STATE AGENCIES AND LEGISLATIVE OVERSIGHT COMMITTEES AND COMMISSIONS TO STUDY SPECIFIED ISSUES, AND TO AMEND OTHER LAWS.

The General Assembly of North Carolina enacts:

PART I.-----TITLE

Section 1. This act shall be known as "The Studies Act of 1999".

PART II.-----LEGISLATIVE RESEARCH COMMISSION

Section 2.1. The Legislative Research Commission may study the topics listed below. When applicable, the bill or resolution that originally proposed the issue or study and the name of the sponsor is listed. Unless otherwise specified, the listed bill or resolution refers to the measure introduced in the 1999 Regular Session of the 1999 General Assembly. The Commission may consider the original bill or resolution in determining the nature, scope, and aspects of the study. The following groupings are for reference only:

(1) Governmental Agency and Personnel Issues:

- a. Defined contribution pension plan for State employees and teachers (H.B. 39 - Baker).
- ...
- d. State employee comprehensive compensation system (H.J.R. 1158 - Nesbitt, Sherrill; S.J.R. 1031 - Reeves).
- ...

Section 2.2. Committee Membership. -- For each Legislative Research Commission committee created during the 1999-2001 biennium, the cochairs of the Legislative Research Commission shall appoint the committee membership.

Section 2.3. Reporting Date. -- For each of the topics the Legislative Research Commission decides to study under this Part or pursuant to G.S. 120-30.17(1), the Commission may report its findings, together with any recommended legislation, to the 1999 General Assembly, 2000 Regular Session, or the 2001 General Assembly.

Section 2.4. Funding. -- From the funds available to the General Assembly, the Legislative Services Commission may allocate additional monies to fund the work of the Legislative Research Commission.

...

PART XXII.-----BILL AND RESOLUTIONS REFERENCES

Section 22.1. The listing of the original bill or resolution in this act is for reference purposes only and shall not be deemed to have incorporated by reference any of the substantive provisions contained in the original bill or resolution.

PART XXIII.-----EFFECTIVE DATE AND APPLICABILITY

Section 23.1. Except as otherwise specifically provided, this act becomes effective July 1, 1999. If a study is authorized both in this act and the Current Operations Appropriations Act of 1999, the study shall be implemented in accordance with the Current Operations Appropriations Act of 1999 as ratified.

In the General Assembly read three times and ratified this the 21st day of July, 1999.

s/ Dennis A. Wicker  
President of the Senate

s/ James B. Black  
Speaker of the House of Representatives

s/ James B. Hunt, Jr.  
Governor

Approved 9:03 p.m. this 5th day of August, 1999



GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1999

H

1

HOUSE BILL 39

Short Title: Study D/C Pension Plan.

(Public)

---

Sponsors: Representative Baker.

---

Referred to: Rules, Calendar and Operations of the House.

---

February 8, 1999

- 1 A BILL TO BE ENTITLED  
2 AN ACT TO ESTABLISH THE DEFINED CONTRIBUTION PENSION PLAN  
3 STUDY COMMISSION.  
4 The General Assembly of North Carolina enacts:  
5 Section 1. The Defined Contribution Pension Plan Study Commission is  
6 created. The Commission shall consist of 17 voting members as follows:  
7 (1) Five members of the House of Representatives to be appointed by  
8 the Speaker of the House of Representatives;  
9 (2) Five members of the Senate to be appointed by the President Pro  
10 Tempore of the Senate;  
11 (3) The State Treasurer or the State Treasurer's designee;  
12 (4) Two members who are not employees of the State, one of whom is  
13 or has been an executive officer of an insurance company, and one  
14 of whom is a certified public accountant, to be appointed by the  
15 Speaker of the House of Representatives;  
16 (5) Two members who are not employees of the State, one of whom is  
17 or has been an executive officer of a bank doing business in this  
18 State, and one of whom is a practicing actuary, to be appointed by  
19 the President Pro Tempore of the Senate;  
20 (6) Two members one of whom is currently employed as a public  
21 school teacher in the state, and one of whom is a state employee,  
22 to be appointed by the Governor.  
23 The Speaker of the House of Representatives and the President Pro  
24 Tempore of the Senate shall each designate a cochair from the General Assembly

1 membership serving on the Commission. The Commission shall meet upon the call of  
2 the cochairs. A majority of the Commission shall constitute a quorum for the  
3 transaction of business.

4 Section 2. The Commission shall examine the feasibility and desirability  
5 of establishing a defined contribution pension plan to provide portable retirement  
6 benefits for teachers and State employees. The Commission shall work cooperatively  
7 with the Retirement System Division of the Department of State Treasurer to  
8 determine whether a defined contribution plan should replace or be provided as an  
9 alternative to the existing defined benefit plan. In the course of its study and in  
10 making any recommendations, the Commission shall consider:

- 11 (1) The costs and other fiscal implications for the State in creating a  
12 defined contribution plan;
- 13 (2) The costs and benefits to teachers and State employees, as  
14 compared to the existing plan;
- 15 (3) How and by whom such a plan would be administered;
- 16 (4) The extent to which the current plan is contractually guaranteed  
17 and the nature of any contract which might be created by a new  
18 plan.

19 Section 3. The Commission may contract for consultant services as  
20 provided by G.S. 120-32.02. Upon approval of the Legislative Services Commission,  
21 the Legislative Services Officer shall assign professional and clerical staff to assist in  
22 the work of the Commission. Clerical staff shall be furnished to the Commission  
23 through the offices of the House of Representatives and Senate Supervisors of Clerks.  
24 The Commission may meet in the Legislative Building or the Legislative Office  
25 Building upon the approval of the Legislative Services Commission. The  
26 Commission, while in the discharge of official duties, may exercise all the powers  
27 provided under the provisions of G.S. 120-19 through G.S. 120-19.4, including the  
28 power to request all officers, agents, agencies, and departments of the State to  
29 provide any information, data, or documents within their possession, ascertainable  
30 from their records, or otherwise available to them, and the power to subpoena  
31 witnesses.

32 Members of the Commission shall receive per diem, subsistence, and  
33 travel allowances as follows:

- 34 (1) Commission members who are members of the General Assembly  
35 at the rate established in G.S. 120-3.1;
- 36 (2) Commission members who are officials or employees of the State  
37 or of local government agencies at the rate established in G.S. 138-  
38 6; and
- 39 (3) All other Commission members at the rate established in G.S. 138-  
40 5.

41 Section 4. There is appropriated the sum of fifty thousand dollars  
42 (\$50,000) for the 1999-2000 fiscal year to the Defined Contribution Pension Plan  
43 Study Commission to complete the study authorized by this act.

1                   Section 5. The Commission shall report the results of its study and its  
2 recommendations to the 1999 General Assembly, 2000 Regular Session. The  
3 Commission shall terminate upon filing its report.

4                   Section 6. This act is effective when it becomes law.



GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1999

H

1

HOUSE JOINT RESOLUTION 1158

---

Sponsors: Representatives Nesbitt, Sherrill (Primary Sponsors); and Cansler.

---

Referred to: Rules, Calendar and Operations of the House.

---

April 15, 1999

1 A JOINT RESOLUTION AUTHORIZING THE LEGISLATIVE RESEARCH  
2 COMMISSION TO STUDY THE STATE EMPLOYEE COMPREHENSIVE  
3 COMPENSATION SYSTEM.

4 Be it resolved by the House of Representatives, the Senate concurring:

5           Section 1. The Legislative Research Commission may study the State  
6 Employee Comprehensive Compensation System. In the course of the study, the  
7 Commission shall consider whether the State Employee Comprehensive  
8 Compensation System adequately compensates State employees, enables them to  
9 move through their pay grades, rewards outstanding performance, and ensures fair  
10 and equitable treatment and evaluations of employees in all classifications. The  
11 Commission shall report the results of its study to the Regular 2000 Session of the  
12 1999 General Assembly.

13           - Section 2. This resolution is effective upon ratification.



GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1999

S

1

SENATE JOINT RESOLUTION 1031

---

Sponsors: Senators Reeves and Carter.

---

Referred to: Rules and Operations of the Senate.

---

April 15, 1999

1 A JOINT RESOLUTION AUTHORIZING THE LEGISLATIVE RESEARCH  
2 COMMISSION TO STUDY THE STATE EMPLOYEE COMPREHENSIVE  
3 COMPENSATION SYSTEM.

4 Be it resolved by the Senate, the House of Representatives concurring:

5       Section 1. The Legislative Research Commission may study the State  
6 Employee Comprehensive Compensation System. In the course of the study, the  
7 Commission shall consider whether the State Employee Comprehensive  
8 Compensation System adequately compensates State employees, enables them to  
9 move through their pay grades, rewards outstanding performance, and ensures fair  
10 and equitable treatment and evaluations of employees in all classifications. The  
11 Commission shall report the results of its study to the Regular 2000 Session of the  
12 1999 General Assembly.

13       Section 2. This resolution is effective upon ratification.





## APPENDIX B

### MEMBERSHIP OF THE LRC COMMITTEE ON STATE EMPLOYEES AND TEACHERS COMPENSATION

#### President Pro Tempore's Appointments

Senator Eric M. Reeves, Cochair  
PO Box 510  
Raleigh, NC 27602  
(919) 828-0801

Senator John A. Garwood  
453 Mark Lane  
North Wilkesboro, NC 28659  
(336) 838-5378

Mrs. Regina Hopkins  
PO Box 912  
Kinston, NC 28502

Senator Stephen M. Metcalf  
PO Box 1694  
Asheville, NC 28802  
(828) 232-1998

Ms. Rita O'Brien  
PO Box 467  
Longdale, NC 28090

Ms. Valeria Peacock  
1906 Athens Avenue  
Durham, NC 27707

#### Staff

Theresa Matula, Research Division  
Phyllis Pickett, Bill Drafting Division  
Mark Trogdon, Fiscal Research Division  
Stanley Moore, Fiscal Research Division

#### Speaker's Appointments

Rep. Ruth M. Easterling, Cochair  
1333 Queens Rd. Apt. 101  
Charlotte, NC 28207-2149  
(704) 375-5934

Rep. Philip A. Baddour  
PO Box 916  
Goldsboro, NC 27533  
(919) 735-7275

Rep. Robert J. Hensley, Jr.  
702 W. Jones St.  
Raleigh, NC 27603  
(919) 743-0012

Rep. Howard J. Hunter  
PO Box 506  
Murfreesboro, NC 27855  
(252) 398-5630

Rep. Martin L. Nesbitt  
29 N. Market St., 7th Floor  
Asheville, NC 28801  
(828) 252-0490

Rep. Wilma M. Sherrill  
PO Box 18561  
Asheville, NC 28814  
(828) 254-0991

#### Clerk

Becky Hedspeth



## APPENDIX C

### § 126-7. Compensation of State employees.

(a) It is the policy of the State to compensate its employees at a level sufficient to encourage excellence of performance and to maintain the labor market competitiveness necessary to recruit and retain a competent work force. To this end, salary increases to State employees shall be implemented through the Comprehensive Compensation System based upon the individual performance of each State employee. The Comprehensive Compensation System shall combine salary increases and awards into an interrelated system of compensation that furthers the recruitment, retention, career service, and outstanding performance of State employees.

(a1) Repealed by Session Laws 1993, c. 388, s. 1.

(a2) For the purpose of this section, unless the context indicates otherwise:

- (1) "Career growth recognition award" means an annual salary increase awarded to a State employee whose final annual performance appraisal indicates job performance that meets or exceeds management's expectations and performance requirements;
- (2) "Cost-of-living adjustment" means a general salary increase given to State employees in response to inflation and labor market factors;
- (3) "Performance bonus" means a salary increase that is awarded in a lump sum to a State employee whose final annual performance appraisal indicates job performance that exceeds management's expectations and performance requirements.

(b) To guide the Governor and the General Assembly in making appropriations to fund the Comprehensive Compensation System, the State Personnel Commission shall conduct annual compensation surveys. The Commission shall present the results of the compensation survey to the Appropriations Committees of the House and Senate no later than two weeks after the convening of the legislature in odd years and May 1st of even years.

(b1) The Comprehensive Compensation System shall consist of the following components: (i) the career growth recognition award, (ii) the cost-of-living adjustment, and (iii) the performance bonus. The career growth recognition award shall be the primary method by which an employee progresses through his or her salary range and shall be awarded annually to employees who qualify for the award. An employee may receive, within a 12-month period, the career growth recognition award, the cost-of-living adjustment, and the performance bonus, if the employee's job performance equals or exceeds the level of performance set forth in subdivisions (4), (4a), and (4b) of subsection (c) of this section. No employee shall be eligible to receive during a 12-month period a performance bonus greater than the maximum amount or less than the minimum amount established by the Commission. Nothing in this section shall affect the system of longevity payments established by the Commission.

(c) Career growth recognition awards, cost-of-living adjustments, and performance bonuses shall be based on annual performance appraisals of all employees conducted by each department, agency, and institution. The State Personnel Commission, under the authority of G.S. 126-4(8), shall adopt policy and regulations for performance appraisal.

The policy and regulations shall include the following:

- (1) The performance appraisal system of each department, agency, or institution shall be designed and administered to ensure that career growth recognition awards, cost-of-living adjustments, and performance bonuses are distributed fairly.
- (2) To be eligible to distribute career growth recognition awards, cost-of-living adjustments, and performance bonuses, a department, agency, or institution shall have an operative performance appraisal system which has been approved by the Commission. The performance appraisal system adopted shall use a rating scale of five levels, with level four or better qualifying for performance bonuses, level three or better qualifying for career growth recognition awards, and level two or better qualifying for cost-of-living adjustments. The performance appraisal system adopted shall adhere to modern personnel management techniques and practices in common use in the public and private sectors.
- (3) The State Personnel Director shall help departments, agencies, and institutions to establish and administer their performance appraisal systems and shall provide initial and ongoing training in performance appraisal and performance system administration.
- (4) An employee whose performance is rated at or above level four of the rating scale shall be eligible to receive, subject to the rules and regulations of the Commission, a performance bonus unless the employee's supervisor justifies in writing to the employee the decision not to award the performance bonus. Other than the Commission, no department, agency, or institution shall set limits so as to preclude an employee whose performance exceeds management's expectations and performance requirements from consideration for a performance bonus.
- (4a) An employee whose performance is rated at or above level three of the rating scale shall receive a career growth recognition award unless the employee's supervisor justifies in writing to the employee the decision not to give the career growth recognition award. The career growth recognition award shall represent a two percent (2%) increase within the employee's assigned pay grade. In no event shall any award increase an employee's compensation above the maximum of the range. Other than the Commission, no agency, department, or institution shall set limits so as to preclude an employee whose performance meets or exceeds management's expectations and performance requirements from receiving a career growth recognition award.
- (4b) An employee whose performance is rated at or above level two of the rating scale and who has not received a suspension without pay or demotion that has not been resolved shall receive a cost-of-living increase. Other than the Commission, no agency, department, or institution shall set limits or initiate written disciplinary procedures for the purpose of precluding an eligible employee from receiving a cost-of-living adjustment.
- (5) Repealed by Session Laws 1993, c. 388, s. 1.
- (5a) Repealed by Session Laws 1993, c. 388, s. 1.
- (6) The State Personnel Director may rescind any career growth recognition award or performance bonus that does not appear to meet the intent of the provisions

of the performance appraisal system and require the originating department, agency, or institution to reconsider or justify the increase.

(7) An employee who disputes the fairness of his or her performance appraisal or the amount of a performance bonus awarded or who believes that he or she was unfairly denied a career growth recognition award or performance bonus shall first discuss the problem with his or her supervisor. Appeals of the supervisor's decision shall be made only to the grievance committee or internal performance review board of the department, agency, or institution which shall make a recommendation to the head of the department, agency, or institution for final decision, or when consented to by both the agency and the employee, the supervisor's decision may be appealed by following the alternative dispute resolution process adopted by the State Personnel Commission. The State Personnel Director shall help a department, agency, or institution establish an internal performance review board or, if it includes employee members, to use its existing grievance committee to hear performance pay disputes. Notwithstanding G.S. 150B-2(2) and G.S. 126-22, 126-25, and 126-34, performance pay disputes, including disputes about individual performance appraisals, shall not be considered contested case issues.

(7a) Each department, agency, and institution shall establish a performance management and pay advisory committee as part of the performance appraisal system. The purpose of the committee is to ensure that salary increases and awards are made in an equitable manner. The committee shall be responsible for reviewing:

- a. Agency salary increase and award policies to determine whether this section and any guidelines promulgated by the State Personnel Commission have been adhered to;
- b. Agency training and education programs to determine whether all employees receive appropriate information; and
- c. Performance appraisal ratings within the department, agency, or institution to determine whether an equitable distribution has been made.

The committee must have a minimum of five members. The head of each department, agency, and institution shall appoint the members of the committee with equal representation of nonsupervisory, supervisory, and management employees. The committee shall elect its own chair.

The performance management and pay advisory committee shall meet at least two times each year. The committee shall submit a written report following each meeting to the head of the department, agency, or institution. The report shall include recommendations for changes and corrections in the administration of the performance management system. The recommendations of the committee shall be advisory only. The head of the department, agency, or institution shall respond to the committee within three months. Copies of the report shall be included in the report to the Office of State Personnel that is required of that agency, department, or institution. Summaries of the report shall be included in the annual reports that are mandated by this subsection.

(8) The State Personnel Director shall monitor the performance appraisal system and the distribution of salary increases and awards within each department, agency, and institution. Each department, agency, and institution shall submit

to the Director annual reports which shall include data on the demographics of performance ratings, the frequency of evaluations, the distribution of salary increases and awards, and the implementation schedule for salary increases and awards. The Director shall analyze the data to ensure that salary increases and awards are distributed fairly within each department, agency, and institution and across all departments, agencies, and institutions of State government and shall report back to each department, agency, and institution on its appraisal and distribution performance.

- (9) The State Personnel Director shall report annually on the Comprehensive Compensation System to the Commission. The report shall evaluate the performance of each department, agency, and institution in the administration of its appraisal system and the distribution of salary increases and awards within each department, agency, and institution and across State government. The report shall include recommendations for improving the performance appraisal system and alleviating inequities. Copies of the report, as adopted by the State Personnel Commission, shall be sent to the Governor, Lieutenant Governor, President Pro Tempore of the Senate, Speaker of the House of Representatives, the standing personnel committees of the House of Representatives and the Senate, and the State Auditor. The State Personnel Director shall recommend to the General Assembly for its approval sanctions to be levied against departments, agencies, and institutions that have deficient performance appraisal systems or that do not link salary increases and awards to employee job performance. These sanctions may include withholding salary increases and awards from the managers and supervisors of individual employing units of departments, agencies, and institutions in which discrepancies exist.

(10) Repealed by Session Laws 1993, c. 388, s. 1.

(d) Repealed by Session Laws 1993, c. 388, s. 1.

(e) The Governor and the General Assembly, subject to availability of funds, shall advance the State's Comprehensive Compensation System by recommending and making annual appropriations to the Comprehensive Compensation System in the following manner:

- (1) The career growth recognition award component shall be funded each year at the level required for full implementation as provided by this section.
- (2) To the extent that expansion funds are available, the Comprehensive Compensation System shall receive an additional appropriation to fund cost-of-living adjustments. Any remaining available funds shall next be allocated to provide for performance bonuses. The level of the performance bonus allocation shall not exceed two percent (2%) of the total employee payroll.

**APPENDIX D**





GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1999

S/H

D

99-LRZ-356A(3.22)  
STUDY COMMITTEE REVIEW VERSION FOR 4/20/2000 MEETING  
(THIS IS A DRAFT AND IS NOT READY FOR INTRODUCTION)

Short Title: State Compensation Plan Changes/Funds. (Public)

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Sponsors:

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Referred to:

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1 A BILL TO BE ENTITLED  
2 AN ACT AMENDING THE EMPLOYEE COMPENSATION AND PERFORMANCE  
3 EVALUATION PROVISIONS OF THE STATE PERSONNEL ACT, CHAPTER 126  
4 OF THE GENERAL STATUTES, AND APPROPRIATING FUNDS FOR FULL  
5 IMPLEMENTATION OF THE STATE COMPENSATION PLAN.  
6 The General Assembly of North Carolina enacts:  
7 Section 1. G.S. 126-7 reads as rewritten:  
8 "§ 126-7. Compensation of State employees.  
9 (a) It is the policy of the State to compensate its employees  
10 at a level sufficient to encourage excellence of performance and  
11 to maintain the labor market competitiveness necessary to recruit  
12 and retain a competent work force. To this end, salary increases  
13 to State employees shall be implemented through the ~~Comprehensive~~  
14 ~~Compensation System~~ State Compensation Plan based upon the  
15 individual performance of each State employee. The ~~Comprehensive~~  
16 ~~Compensation System~~ State Compensation Plan shall combine salary  
17 increases and awards into an interrelated system of compensation  
18 that furthers the recruitment, retention, career service, and  
19 outstanding performance of State employees.  
20 (a1) Repealed by Session Laws 1993, c. 388, s. 1.  
21 (a2) For the purpose of this section, unless the context  
22 indicates otherwise:

- 1           (1) 'Career growth recognition award' means an annual  
2 salary increase awarded to a State employee whose  
3 final annual performance appraisal indicates job  
4 performance that meets or exceeds management's  
5 expectations and performance ~~requirements;~~  
6 requirements.
- 7           (2) 'Cost-of-living adjustment' means a general salary  
8 increase given to State employees in response to  
9 inflation and labor market ~~factors;~~ factors to  
10 reflect the annual percentage increase in the  
11 Consumer Price Index of the previous calendar year.
- 12           (3) 'Performance bonus' means a salary increase that is  
13 awarded in a lump sum to a State employee whose  
14 final annual performance appraisal indicates job  
15 performance that exceeds management's expectations  
16 and performance requirements.
- 17       (a3) It is the intent of the General Assembly that the annual  
18 career growth recognition award shall be part of the continuation  
19 budget for each fiscal year and that the cost-of-living  
20 adjustment and the performance bonus shall be part of the annual  
21 expansion budget.
- 22       (b) To guide the Governor and the General Assembly in making  
23 appropriations to fund the ~~Comprehensive Compensation System,~~  
24 State Compensation Plan, the State Personnel Commission shall  
25 conduct annual compensation surveys. The Commission shall present  
26 the results of the compensation survey to the Appropriations  
27 Committees of the House and Senate no later than two weeks after  
28 the convening of the legislature in odd years and May 1st of even  
29 years.
- 30       (b1) The ~~Comprehensive Compensation System~~ State Compensation  
31 Plan shall consist of the following components: (i) the career  
32 growth recognition award, (ii) the cost-of-living adjustment, and  
33 (iii) the performance bonus. The career growth recognition award  
34 shall be the primary method by which an employee progresses  
35 through his or her salary range and shall be awarded annually to  
36 employees who qualify for the award. An employee may receive,  
37 within a 12-month period, the career growth recognition award,  
38 the cost-of-living adjustment, and the performance bonus, if the  
39 employee's job performance equals or exceeds the level of  
40 performance set forth in subdivisions (4), (4a), and (4b) of  
41 subsection (c) of this section. No employee shall be eligible to  
42 receive during a 12-month period a performance bonus greater than  
43 the maximum amount or less than the minimum amount established by

1 the Commission. Nothing in this section shall affect the system  
2 of longevity payments established by the Commission.

3 (c) Career growth recognition ~~awards, cost of living~~  
4 ~~adjustments,~~ awards and performance bonuses shall be based on  
5 annual performance appraisals of all employees conducted by each  
6 department, agency, and institution. The State Personnel  
7 Commission, under the authority of G.S. 126-4(8), shall adopt  
8 policy and regulations for performance appraisal. The policy and  
9 regulations shall include the following:

10 (1) The performance appraisal system of each  
11 department, agency, or institution shall be  
12 designed and administered to ensure that career  
13 growth recognition ~~awards, cost of living~~  
14 ~~adjustments,~~ awards and performance bonuses are  
15 distributed fairly.

16 (2) To be eligible to distribute career growth  
17 recognition ~~awards, cost of living adjustments,~~  
18 awards and performance bonuses, a department,  
19 agency, or institution shall have an operative  
20 performance appraisal system which has been  
21 approved by the Commission. The Any performance  
22 appraisal system adopted shall use a rating scale  
23 of five levels, with level four or better  
24 qualifying for performance bonuses, level three or  
25 better qualifying for career growth recognition  
26 awards, and level two or better qualifying for  
27 cost of living adjustments, by an agency,  
28 department, or institution shall meet the standards  
29 established by the Commission and shall define the  
30 specific parameters for employees whose performance  
31 is deemed unsatisfactory by management or whose  
32 performance meets or exceeds management's  
33 expectations. The performance appraisal system  
34 adopted shall adhere to modern personnel management  
35 techniques and practices in common use in the  
36 public and private sectors.

37 (3) The State Personnel Director shall help  
38 departments, agencies, and institutions to  
39 establish and administer their performance  
40 appraisal systems and shall provide initial and  
41 ongoing training in performance appraisal and  
42 performance system administration.

43 (4) An employee whose performance ~~is rated at or above~~  
44 ~~level four of the rating scale~~ exceeds management's

1 expectations and performance requirements shall be  
2 eligible to receive, subject to the rules and  
3 regulations of the Commission, a performance bonus  
4 unless the employee's supervisor justifies in  
5 writing to the employee the decision not to award  
6 the performance bonus. Other than the Commission,  
7 no department, agency, or institution shall set  
8 limits so as to preclude an employee whose  
9 performance exceeds management's expectations and  
10 performance requirements from consideration for a  
11 performance bonus.

12 (4a) ~~An employee whose performance is rated at or above~~  
13 ~~level three of the rating scale~~ meets or exceeds  
14 management's expectations and performance  
15 requirements shall receive a career growth  
16 recognition award unless the employee's supervisor  
17 justifies in writing to the employee the decision  
18 not to give the career growth recognition award.  
19 The career growth recognition award shall represent  
20 a two percent (2%) increase within the employee's  
21 assigned pay grade. In no event shall any award  
22 increase an employee's compensation above the  
23 maximum of the ~~range.~~ range, except that an  
24 employee who has reached the maximum of the range  
25 shall receive a one-time bonus equal to a two  
26 percent (2%) increase in the employee's assigned  
27 pay grade if the employee's performance meets or  
28 exceeds management's expectations and performance  
29 requirements. Other than the Commission, no agency,  
30 department, or institution shall set limits so as  
31 to preclude an employee whose performance meets or  
32 exceeds management's expectations and performance  
33 requirements from receiving a career growth  
34 recognition award.

35 (4b) ~~An employee whose performance is rated at or above~~  
36 ~~level two of the rating scale and who has not~~  
37 ~~received a suspension without pay or demotion that~~  
38 ~~has not been resolved~~ Each employee shall receive a  
39 cost-of-living ~~increase.~~ increase to accommodate  
40 inflation and labor market factors. Other than the  
41 Commission, no agency, department, or institution  
42 shall set limits ~~or initiate written disciplinary~~  
43 ~~procedures for the purpose of precluding to~~

- 1           preclude an eligible employee from receiving a  
2           cost-of-living adjustment.
- 3           (5) Repealed by Session Laws 1993, c. 388, s. 1.
- 4           (5a) Repealed by Session Laws 1993, c. 388, s. 1.
- 5           (6) The State Personnel Director may rescind any career  
6           growth recognition award or performance bonus that  
7           does not appear to meet the intent of the  
8           provisions of the performance appraisal system and  
9           require the originating department, agency, or  
10          institution to reconsider or justify the increase.
- 11          (7) An employee who disputes the fairness of his or her  
12          performance appraisal or the amount of a  
13          performance bonus awarded or who believes that he  
14          or she was unfairly denied a career growth  
15          recognition award or performance bonus shall first  
16          discuss the problem with his or her supervisor.  
17          Appeals of the supervisor's decision shall be made  
18          only to the grievance committee or internal  
19          performance review board of the department, agency,  
20          or institution which shall make a recommendation to  
21          the head of the department, agency, or institution  
22          for final decision, or when consented to by both  
23          the agency and the employee, the supervisor's  
24          decision may be appealed by following the  
25          alternative dispute resolution process adopted by  
26          the State Personnel Commission. The State Personnel  
27          Director shall help a department, agency, or  
28          institution establish an internal performance  
29          review board or, if it includes employee members,  
30          to use its existing grievance committee to hear  
31          performance pay disputes. Notwithstanding G.S.  
32          150B-2(2) and G.S. 126-22, 126-25, and 126-34,  
33          performance pay disputes, including disputes about  
34          individual performance appraisals, shall not be  
35          considered contested case issues.
- 36          (7a) Each department, agency, and institution shall  
37          establish a performance management and pay advisory  
38          committee as part of the performance appraisal  
39          system. The purpose of the committee is to ensure  
40          that salary increases and awards are made in an  
41          equitable manner. The committee shall be  
42          responsible for reviewing:
- 43           a. Agency salary increase and award policies to  
44           determine whether this section and any

- 1 guidelines promulgated by the State Personnel  
2 Commission have been adhered to;
- 3 b. Agency training and education programs to  
4 determine whether all employees receive  
5 appropriate information; and
- 6 c. Performance appraisal ratings within the  
7 department, agency, or institution to  
8 determine whether an equitable distribution  
9 has been made.

10 The committee must have a minimum of five  
11 members. The head of each department, agency, and  
12 institution shall appoint the members of the  
13 committee with equal representation of  
14 nonsupervisory, supervisory, and management  
15 employees. The committee shall elect its own chair.

16 The performance management and pay advisory  
17 committee shall meet at least two times each year.  
18 The committee shall submit a written report  
19 following each meeting to the head of the  
20 department, agency, or institution. The report  
21 shall include recommendations for changes and  
22 corrections in the administration of the  
23 performance management system. The recommendations  
24 of the committee shall be advisory only. The head  
25 of the department, agency, or institution shall  
26 respond to the committee within three months.  
27 Copies of the report shall be included in the  
28 report to the Office of State Personnel that is  
29 required of that agency, department, or  
30 institution. Summaries of the report shall be  
31 included in the annual reports that are mandated by  
32 this subsection.

33 (8) The State Personnel Director shall monitor the  
34 performance appraisal system and the distribution  
35 of salary increases and awards within each  
36 department, agency, and institution. Each  
37 department, agency, and institution shall submit to  
38 the Director annual reports which shall include  
39 data on the demographics of performance ratings,  
40 the frequency of evaluations, the distribution of  
41 salary increases and awards, and the implementation  
42 schedule for salary increases and awards. The  
43 Director shall analyze the data to ensure that  
44 salary increases and awards are distributed fairly

1 within each department, agency, and institution and  
2 across all departments, agencies, and institutions  
3 of State government and shall report back to each  
4 department, agency, and institution on its  
5 appraisal and distribution performance.

6 (9) The State Personnel Director shall report annually  
7 on the ~~Comprehensive Compensation System~~ State  
8 Compensation Plan to the Commission. The report  
9 shall evaluate the performance of each department,  
10 agency, and institution in the administration of  
11 its appraisal system and the distribution of salary  
12 increases and awards within each department,  
13 agency, and institution and across State  
14 government. The report shall include  
15 recommendations for improving the performance  
16 appraisal system and alleviating inequities. Copies  
17 of the report, as adopted by the State Personnel  
18 Commission, shall be sent to the Governor,  
19 Lieutenant Governor, President Pro Tempore of the  
20 Senate, Speaker of the House of Representatives,  
21 the standing personnel committees of the House of  
22 Representatives and the Senate, and the State  
23 Auditor. The State Personnel Director shall  
24 recommend to the General Assembly for its approval  
25 sanctions to be levied against departments,  
26 agencies, and institutions that have deficient  
27 performance appraisal systems or that do not link  
28 salary increases and awards to employee job  
29 performance. These sanctions may include  
30 withholding salary increases and awards from the  
31 managers and supervisors of individual employing  
32 units of departments, agencies, and institutions in  
33 which discrepancies exist.

34 (10) Repealed by Session Laws 1993, c. 388, s. 1.

35 (d) Repealed by Session Laws 1993, c. 388, s. 1.

36 (e) The Governor and the General Assembly, subject to  
37 availability of funds, shall advance the ~~State's Comprehensive~~  
38 ~~Compensation System~~ State Compensation Plan by recommending and  
39 making annual appropriations to the ~~Comprehensive Compensation~~  
40 ~~System~~ State Compensation Plan in the following manner:

41 (1) The career growth recognition award component shall  
42 be funded each fiscal year from the continuation  
43 budget at the level required for full  
44 implementation as provided by this section.

1           (2) To the extent that expansion funds are available,  
2           the ~~Comprehensive Compensation System~~ State  
3           Compensation Plan shall receive an additional  
4           appropriation to fund cost-of-living adjustments.  
5           Any remaining available funds shall next be  
6           allocated to provide for performance bonuses. ~~The~~  
7           ~~level of the performance bonus allocation shall not~~  
8           ~~exceed two percent (2%) of the total employee~~  
9           ~~payroll."~~

10           Section 2. (a) There is appropriated from the General  
11 Fund to the Reserve for Compensation Increase the sum of eighty-  
12 eight million two hundred thousand dollars (\$88,200,000) for the  
13 2000-2001 fiscal year to be used as follows:

14           (1) \$42,000,000 to fund the Career Growth Component of  
15           the State Compensation Plan at a minimum two  
16           percent (2%) increase.

17           (2) \$46,200,000 to tie the cost of living adjustment of  
18           the State Compensation Plan to the Consumer Price  
19           Index (CPI) for the previous calendar year. For  
20           calendar year 1999, the assumed average CPI rate is  
21           equal to 2.2%.

22           Section 2. (b) There is appropriated from the General  
23 Fund to the Reserve for Compensation Bonus the sum of forty-two  
24 million dollars (\$42,000,000) for the 2000-2001 fiscal year to  
25 fund the Performance Bonus under the State Compensation Plan at a  
26 minimum of two percent (2%) of payroll.

27           Section 2. (c) There is appropriated from the General  
28 Fund to the Reserve for Compensation Increase the sum of one  
29 hundred five million dollars (\$105,000,000) for the 2000-2001  
30 fiscal year to fund a five percent (5%) salary increase under the  
31 State Compensation Plan to account for prior increases in the  
32 cost of living adjustment that did not match the CPI.

33           Section 3. (a) There is appropriated from the Highway  
34 Fund to the Reserve for Compensation Increase the sum of eighteen  
35 million sixty thousand dollars (\$18,060,000) for the 2000-2001  
36 fiscal year to be used as follows:

37           (1) \$8,600,000 to fund the Career Growth Component of  
38           the State Compensation Plan at a minimum two  
39           percent (2%) increase.

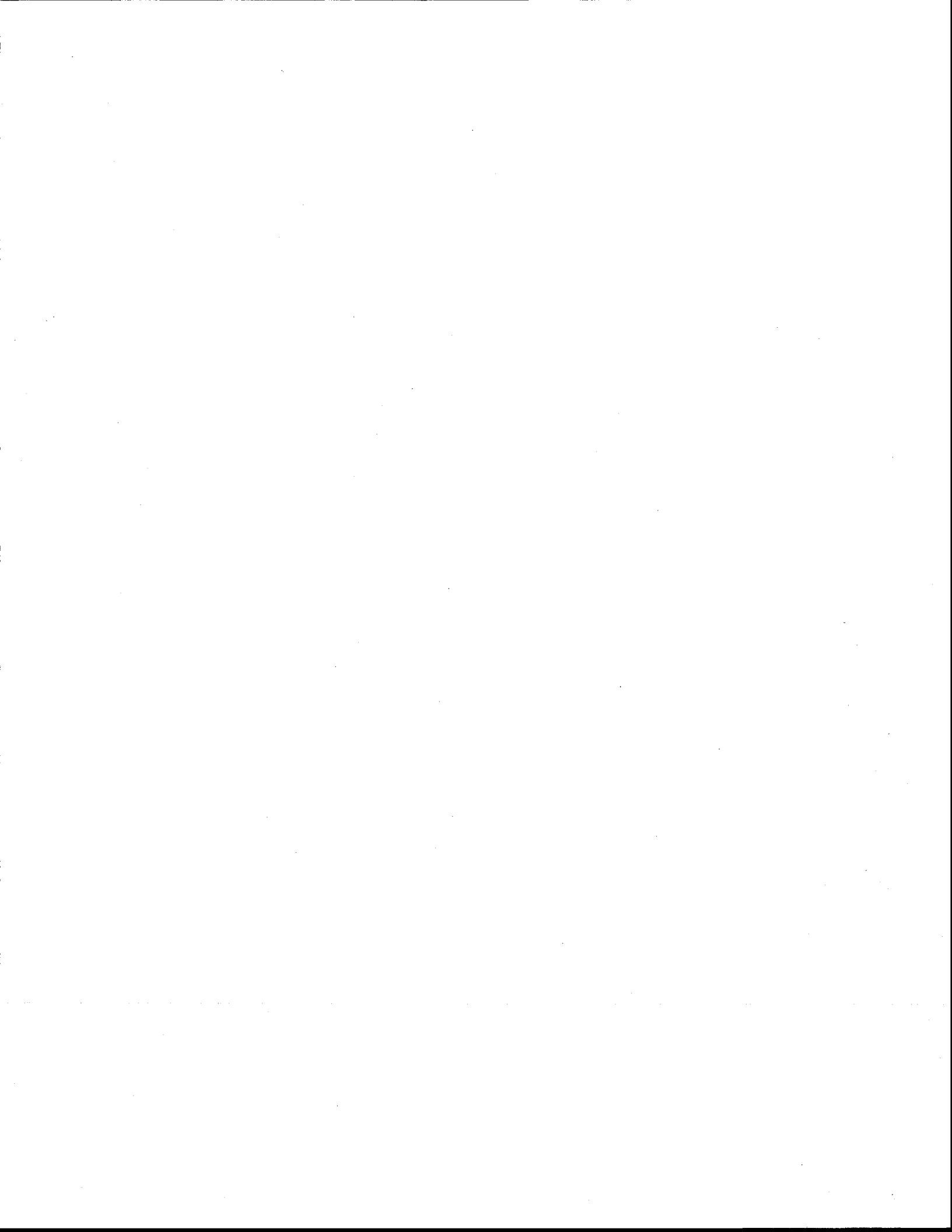
40           (2) \$9,460,000 to tie the cost of living adjustment of  
41           the State Compensation Plan to the Consumer Price  
42           Index (CPI) for the previous calendar year. For  
43           calendar year 1999, the assumed average CPI rate is  
44           equal to 2.2%.



1           Section 3. (b) There is appropriated from the Highway  
2 Fund to the Reserve for Compensation Bonus the sum of eight  
3 million six hundred thousand dollars (\$8,600,000) for the 2000-  
4 2001 fiscal year to fund the Performance Bonus under the State  
5 Compensation Plan at a minimum of two percent (2%) of payroll.

6           Section 3. (c) There is appropriated from the Highway  
7 Fund to the Reserve for Compensation Increase the sum of twenty-  
8 one million five hundred thousand dollars (\$21,500,000) for the  
9 2000-2001 fiscal year to fund a five percent (5%) salary increase  
10 under the State Compensation Plan to account for prior increases  
11 in the cost of living adjustment that did not match the CPI.

12           Section 4. Sections 2 and 3 of this act becomes  
13 effective July 1, 2000. The remainder of this act is effective  
14 when it becomes law.





## 99-LRZ-356A(3.22): State Compensation Plan Changes/Funds

### BILL ANALYSIS

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<b>Committee:</b> LRC- State Employees and Teachers Compensation Committee	<b>Introduced by:</b>
<b>Date:</b> April 19, 2000	<b>Summary by:</b> Theresa Matula Phyllis Pickett
<b>Version:</b> 99-LRZ-356A(3.22)	Committee Staff

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**SUMMARY:** 99-LRZ-356A(3.22) amends Section 7 of Chapter 126 regarding the compensation and performance evaluation of State employees subject to this section and appropriates funds for full implementation.

### CURRENT LAW:

G.S. 126-7 covers the compensation of State employees and specifically outlines the Comprehensive Compensation System. The Comprehensive Compensation System applies only to employees subject to Chapter 126 and features three components: Career Growth Recognition Award, Cost-of-Living Adjustment, and Performance Bonus. The components are defined as follows:

“Career growth recognition award” means an annual salary increase awarded to a State employee whose final annual performance appraisal indicates job performance that meets or exceeds management’s expectations and performance requirements;

“Cost-of-living adjustment” means a general salary increase given to State employees in response to inflation and labor market factors;

“Performance bonus” means a salary increase that is awarded in a lump sum to a State employee whose final annual performance appraisal indicates job performance that exceeds management’s expectations and performance requirements.

Current law links the award of each of these components to an employee’s annual performance appraisal rating. The performance appraisal system of each department, agency, or institution shall be within the guidelines of the State Personnel Commission and shall use a rating scale of five levels, with level four or better qualifying for performance bonuses, level three or better qualifying for career growth recognition awards, and level two or better qualifying for cost-of-living adjustments.

### BILL ANALYSIS:

The following is an outline of the sections in 99-LRZ-356A(3.22).

#### Section 1 (Changes to G.S. 126-7)

- Changes the name from Comprehensive Compensation System to State Compensation Plan.
- Links the cost-of-living adjustment to the Consumer Price Index of the previous calendar year.
- Specifies that the annual career growth recognition award be part of the continuation budget for each fiscal year and that the cost-of-living adjustment and the performance bonus be part of the annual expansion budget.
- Eliminates the requirement that a cost-of-living award be based on a performance appraisal rating and states that each employee shall receive a cost-of-living increase.

# 99-LRZ-356A(3.22)

Page 2

- Eliminates the requirement of a five level performance appraisal rating scale and requires that any performance appraisal system adopted meet the standards established by the State Personnel Commission and define specific parameters for employees whose performance is deemed unsatisfactory by management or whose performance meets or exceeds management's expectations. Conforming changes are made to the rating levels specified under the career growth recognition award and the performance bonus.

## Section 2 (General Fund Appropriations)

- Appropriates the sum of eighty-eight million two hundred thousand dollars (\$88,200,000) from the General Fund to the Reserve for the Compensation Increase for the 2000-2001 fiscal year to be used as follows:
  - \$42,000,000 to fund the Career Growth Component of the State Compensation Plan at a minimum two percent (2%) increase.
  - \$46,200,000 to fund a cost of living adjustment under the State Compensation Plan based on a 2.2% CPI rate for the 1999 calendar year.
- Appropriates forty-two million dollars (\$42,000,000) from the General Fund to the Reserve for Compensation Bonus for the 2000-2001 fiscal year to fund the Performance Bonus under the State Compensation Plan at a minimum of two percent (2%) of payroll.
- Appropriates one hundred five million dollars (\$105,000,000) from the General Fund to the Reserve for Compensation Increase for the 2000-2001 fiscal year to fund a five percent (5%) salary increase under the State Compensation Plan to account for prior increases in the cost-of-living adjustment that did not match the CPI.

## Section 3 (Highway Fund Appropriations)

- Appropriates the sum of eighteen million sixty thousand dollars (\$18,060,000) from the Highway Fund to the Reserve for the Compensation Increase for the 2000-2001 fiscal year to be used as follows:
  - \$8,600,000 to fund the Career Growth Component of the State Compensation Plan at a minimum two percent (2%) increase.
  - \$9,460,000 to fund a cost of living adjustment under the State Compensation Plan based on a 2.2% CPI rate for the 1999 calendar year.
- Appropriates eight million six hundred thousand dollars (\$8,600,000) from the Highway Fund to the Reserve for Compensation Bonus for the 2000-2001 fiscal year to fund the Performance Bonus under the State Compensation Plan at a minimum of two percent (2%) of payroll.
- Appropriates twenty-one million five hundred thousand dollars (\$21,500,000) from the Highway Fund to the Reserve for Compensation Increase for the 2000-2001 fiscal year to fund a five percent (5%) salary increase under the State Compensation Plan to account for prior increases in the cost-of-living adjustment that did not match the CPI.

## Section 4 (Effective Dates)

Sections 2 and 3 become effective July 1, 2000. The remainder of the act becomes effective when it becomes law.

**APPENDIX E**



## SUMMARY OF STATE FUNDED POSITIONS

State, Public School, and Community College campus employees are funded with support in total or in part from General Fund appropriations and other revenue receipts (i.e., federal funds, fees, etc). There are two major classes of positions funded with support from State dollars: (1) "SPA positions", which are so classified because employees in these positions are subject to laws articulated in the State Personnel Act, found in Chapter 126 of the General Statutes; and (2) "Non SPA positions" which are not subject to the State Personnel Act.

Table 1 below provides a summary of the number, fund source, distribution and budgeted funds of SPA positions in State government. Employees in these designated positions are compensated in accordance with the Comprehensive Compensation System defined in G.S. 126-7 and are the only State funded employees for which the System is applicable.

FY 1998-99 (Estimated)	By Fund Source			Total by Category	%
Category	General Fund	Receipts Supported	Highway Fund		
<b>State Agencies</b>					
Corrections	18,703	412	-	19,115	21.0%
Health & Human Svcs.	15,217	3,296	15	18,528	20.3%
Transportation	-	-	14,287	14,287	15.7%
University System	13,863	4,984	-	18,847	20.7%
All Other State Agencies	12,332	6,080	1,937	20,349	22.3%
<b>Position Totals</b>	<b>60,115</b>	<b>14,772</b>	<b>16,239</b>	<b>91,126</b>	<b>100.0%</b>
<b>Budgeted Funds (includes Salary, Social Security &amp; Retirement Contributions)</b>	<b>\$ 1,968,409,594</b>	<b>\$ 569,546,981</b>	<b>\$ 412,806,618</b>	<b>\$ 2,950,863,193</b>	

*Data source: Office of State Budget and Management*

Non SPA Positions are largely represented by State funded support for Community College campus employees, Public School employees, Judicial and Legislative branch employees and University System faculty. Table 2 below summarizes the estimated number, fund source, distribution and budgeted funds of Non SPA positions funded through State resources. Non SPA positions are not subject to the Comprehensive Compensation System.

FY 1998-99 (Estimated)	By Fund Source			Total by Category	%
Category	General Fund	Receipts Supported	Highway Fund		
<b>State Agencies</b>					
University System	13,527	1,289	-	14,816	9.0%
Judicial Branch	5,243	71	-	5,314	3.2%
All Other State Agencies	360	168	2	530	0.3%
<b>Community College System</b>	<b>11,007</b>	<b>-</b>	<b>-</b>	<b>11,007</b>	<b>6.7%</b>
<b>Public Schools</b>					
Teachers/Principals	83,815	-	-	83,815	50.9%
All Other Public School Personnel	49,209	-	137	49,346	29.9%
<b>Position Totals</b>	<b>163,161</b>	<b>1,528</b>	<b>139</b>	<b>164,828</b>	<b>100.0%</b>
<b>Budgeted Funds (includes Salary, Social Security &amp; Retirement Contributions)</b>	<b>\$ 6,100,391,967</b>	<b>\$ 98,886,210</b>	<b>\$ 5,634,022</b>	<b>\$ 6,204,912,199</b>	

*Data source: Office of State Budget and Management, Department of Public Instruction*

Table 3 below is a summary of Table 1 and Table 2 to provide overall totals.

FY 1998-99 (Estimated)	By Fund Source			Total by Category
Category	General Fund	Receipts Supported	Highway Fund	
<b>Position Totals</b>	<b>223,276</b>	<b>16,300</b>	<b>16,378</b>	<b>255,954</b>
<b>Budgeted Funds (includes Salary, Social Security &amp; Retirement Contributions)</b>	<b>\$ 8,068,801,561</b>	<b>\$ 668,533,191</b>	<b>\$ 418,440,640</b>	<b>\$ 9,155,775,392</b>





# Investing in State Employees

## Final Report

of the

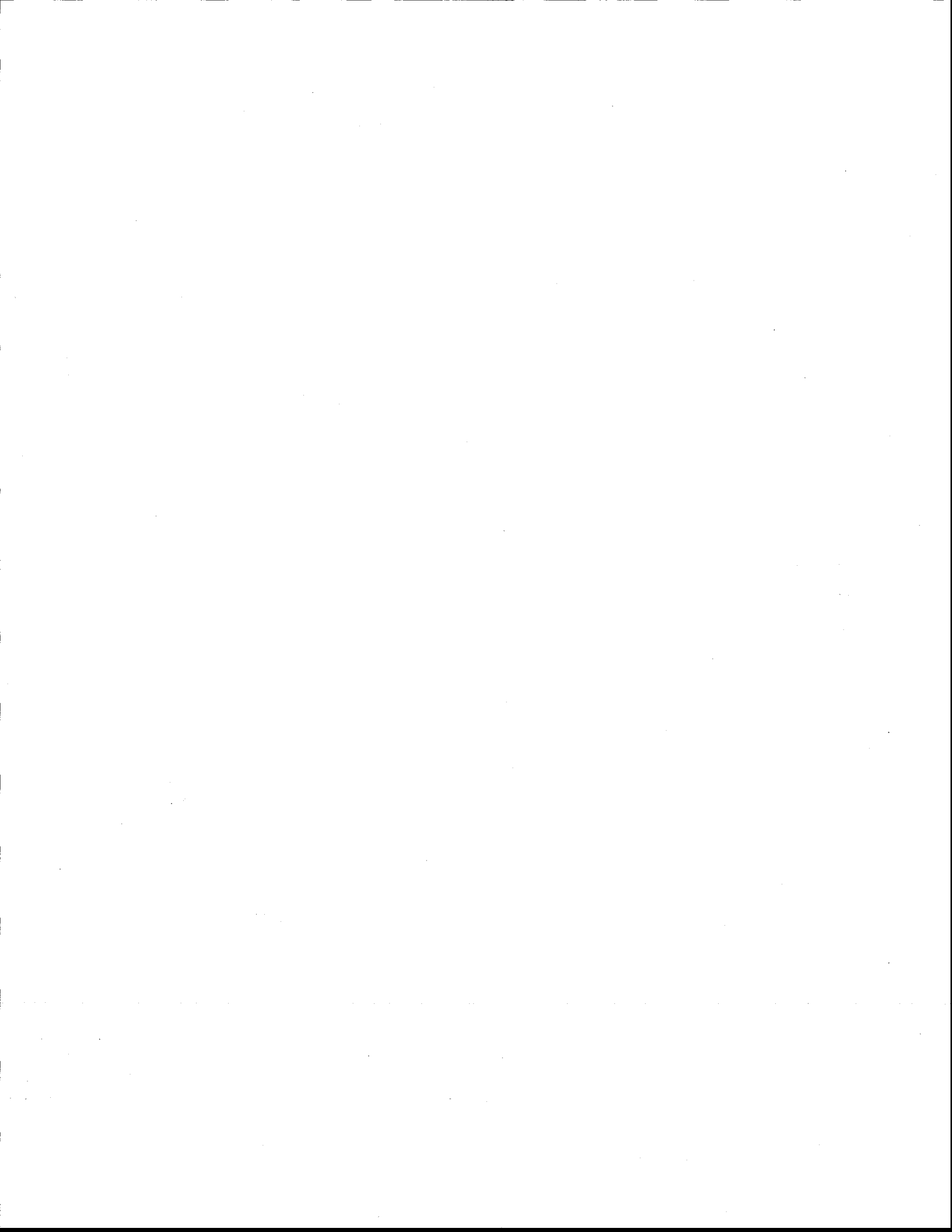
## OSP/SEANC Study Committee on Pay and Performance Management

### *OSP Committee Members:*

*Co-Chair Valerie Ford (Pay and Policy), Betty Brown (Equal Opportunity Service), Duane Hinkle (Human Resources Design and Analysis), Arlo Lund (Compensation and Benefits Analysis), Patrick McCoy (Local Government, Performance Management and Employment Selection and Retention) and Pani Tademeti (Flexible Benefits).*

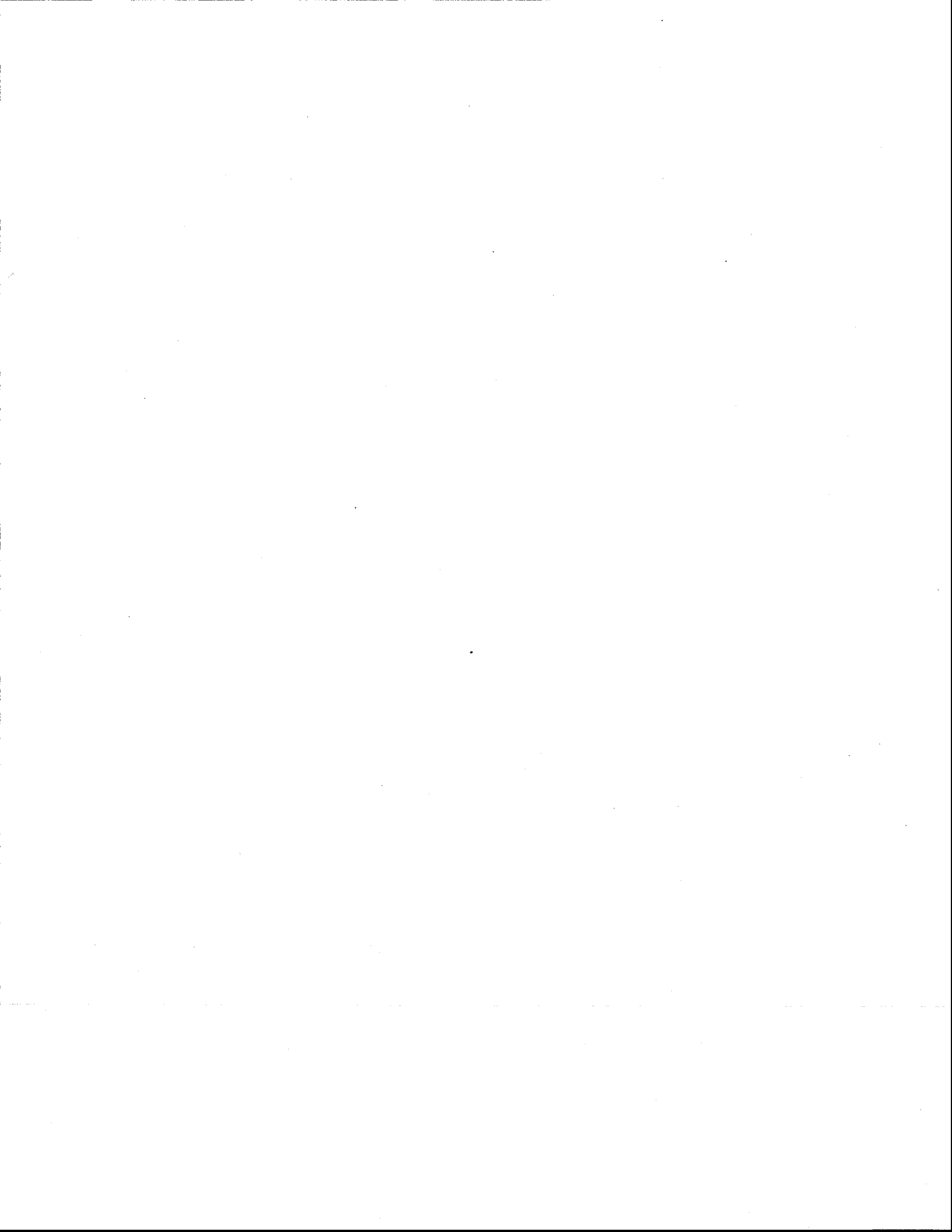
### *SEANC Committee Members:*

*Co-Chair Mark Dearmon (NC State University), Mel Crocker (Department of Health and Human Services), Susan Hayes (Employment Security Commission), Ed McBride (NC School of Science and Math), Darlene Jacobs (Department of Administration) and Katherine Joyce (SEANC Legislative Affairs)*



## Table of Contents

Introduction .....	3
Pay Plan	
Background .....	4
Recommendations .....	7
Performance Management System	
Background .....	8
Recommendations .....	11
Conclusion .....	12



## North Carolina's Investment in State Employees

### Introduction

State employees are among the most important resources to state government. Through their public service, the universities are open, the prisons are secure and valuable services are provided to the citizens of North Carolina. Not only are state employees valuable resources, they are also important investments. Unlike the mortar and brick investments that provide the buildings for state services, the investment in state employees grows with experience. That is why the State Personnel Act (G.S. 126-7) states:

*It is the policy of the State to compensate its employees at a level sufficient to encourage excellence of performance and to maintain the labor market competitiveness necessary to recruit and retain a competent work force.*

As this report will show, there is strong evidence supporting the supposition that state employees have not been compensated sufficiently.

Legislation passed during the 1997 legislative session called for establishment of a study committee to look at compensation for state employees. By the fall of 1998, that study had not yet occurred.

In December of 1998, Mr. Ronald Penny, Director of the Office of State Personnel (OSP), Mr. Troy Green, Executive Director of the State Employees Association of North Carolina (SEANC), and Mr. Ray Mosteller, SEANC President discussed the need for a review of the current pay plan and performance management system. They met with the Honorable Governor James B. Hunt, Jr. and legislative leaders to suggest that OSP and SEANC put together their own study committee of state employees, managers and human resource professionals to review the Comprehensive Compensation System and the Performance Management System. This would allow state employees to have input in improving the effectiveness of both systems. The committee would then recommend changes to a Legislative Research Committee (LRC) to be appointed at the end of the 1999 legislative session.

The idea was endorsed by Governor Hunt, Senate President Pro-Tempore Marc Basnight, and House Speaker Jim Black. In March 1999, the OSP/SEANC Study Committee was appointed and began meeting to study the pay and performance management programs.

While the Study Committee was meeting, SEANC received House and Senate sponsors for bills calling for a legislative committee to study pay. The study was approved during the 1999 legislative session.

The OSP/SEANC Study Committee is now pleased to present its findings to kick-off the LRC's work on pay issues.

## The State Employees Pay Plan

### Background

The State Personnel Act, (G. S. 126-7), was amended in 1993 to include a new pay plan referred to as the Comprehensive Compensation System. Adoption of this new compensation system was a positive step for North Carolina's 85,000+ SPA state employees. They had been without a pay plan allowing for progression through the steps of their salary range for more than ten years. According to the language in G. S. 126-7, "The Governor and the General Assembly, *subject to the availability of funds*, shall advance the State's Comprehensive Compensation System by recommending and making annual appropriations to the Comprehensive Compensation System..." FY 1998 - 1999 was the only year in which all three components of the pay plan were partially funded by the legislature, and the only year that the legislature funded a 1% Performance Bonus.

Salary increases for SPA employees under this plan were to be funded by the legislature in three components:

1. Career Growth Recognition Award is an annual salary increase awarded to an employee with an overall summary rating at or above the "good" level of the rating scale, who is not in final disciplinary procedure. It is the primary method by which an employee progresses through the salary range.

2. Cost-of-Living Adjustment (COLA) is a general salary increase awarded an employee as a result of inflation and labor market factors. Employees receive this increase if their overall summary rating is at or above the "below good" level of the rating scale, and they have not been suspended nor demoted.

3. Performance Bonus is granted to state employees who receive a "very good" or better rating on their performance appraisal.

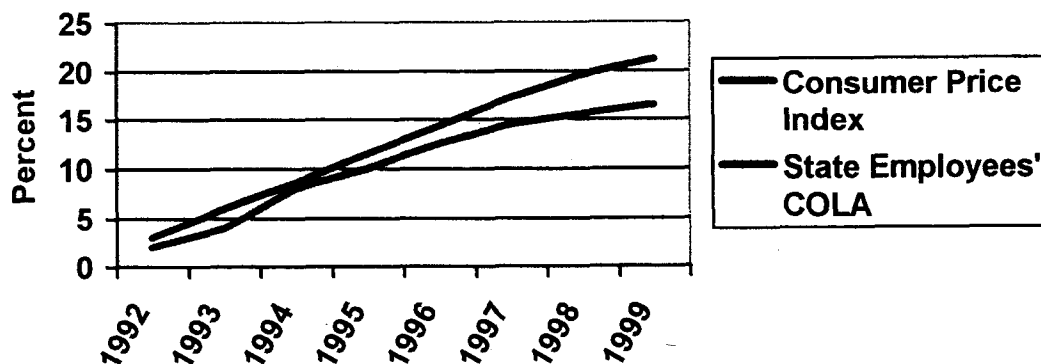
Since the Comprehensive Compensation System was ratified in 1993, the State Employees Association of North Carolina (SEANC) has continually encouraged the legislature to fully fund the pay plan and tie the COLAs to the Consumer Price Index (CPI). Unfortunately, SEANC's recommendation was never approved, and the result has been the compression of salaries of long-term employees and the salaries needed to attract new hires to the system. In fact, between FY 92-93 and FY 99-00, funding for the COLA has lagged 4.7% below the CPI. The Career Growth Component was granted in only four of the last eight fiscal years resulting in an 8% deficit.

The OSP/SEANC Study Committee took a historical look at the Comprehensive Compensation System and its funding. It immediately became apparent that the problems with sufficiently compensating state employees lay not with the system itself, but with the inadequate funding provided over the past seven years.

The 1999 Annual State Employee Survey provides an interesting perspective on compensation in state government. While almost 75% of state employees are generally satisfied with their job, less than 7% believe that if they do a better job their pay will be adjusted accordingly. This fact has contributed to the low morale among state employees. The 1999 survey shows that less than a third of the 1,300+ employees who returned surveys felt that morale in their work unit was usually high. This combination of factors is one of the reasons that of those who leave state government, almost 24% leave within the first year and 47% within three years.

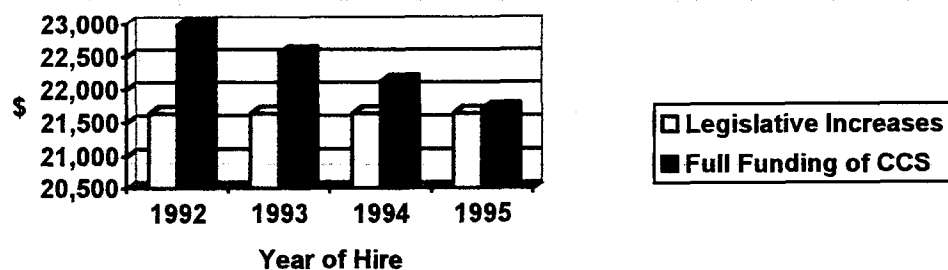
Low funding of the pay plan has meant that the average state employee is almost 5% short of keeping up with inflation since 1992. (Figure 1)

**Figure 1. State Employees' COLA vs. Consumer Price Index, 1992-1999**



The across-the-board raises given in 1992-93 (\$522/employee), 1993-94 (2%), 1994-95 (4%) and 1995-96 (2%) did not allow for the Career Growth Recognition and meant that employees did not move up in their salary range. In many cases, someone hired in 1996 at the minimum salary for a position began at the same salary as someone hired to the same position in 1993 because the Career Growth component of the pay plan was not funded. Figure 2 shows the effect of the across-the-board raises given in 1993-96. The result is that an employee hired in 1992 is earning the same salary as an employee who was hired in 1995.

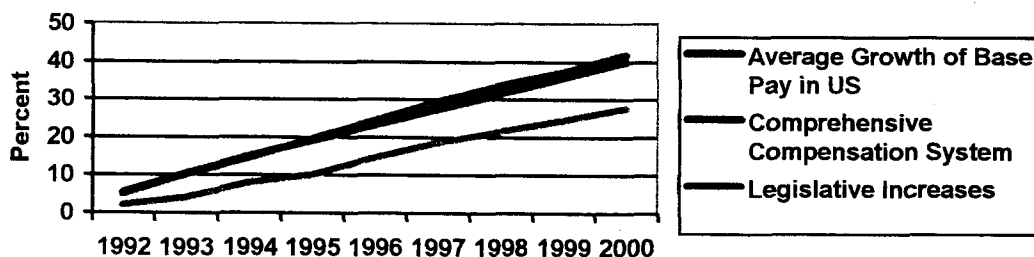
**Figure 2. Legislative Salary Increases vs. Full Funding of Pay Plan, Cummulative 1992-95**



State employees in many of the lower pay grades are particularly hard hit by this salary compression. Department of Transportation road workers, correctional officers, housekeepers, employment interviewers, health care technicians, and others find that the opportunities for advancement within state government are limited. The Career Growth Component is an important investment in the experience these state employees represent. Every time a good employee leaves state government, hiring and training a replacement costs the state money. But training alone does not replace experience on the job.

A comparison between the salary increases for state employees and the average personal income growth in North Carolina shows that the average state employee has seen salary increases totaling 24.5% since 1993 while increases in the private sector were 47% -- almost double. In fact, even if the Comprehensive Compensation System had been fully funded for the past seven years, state employees would not have kept up with the private sector. But the gap would be much smaller. (Figure 3)

**Figure 3 - Legislative Salary Increases Compared to Comprehensive Compensation System and US Average**



The bottom line is that the Comprehensive Compensation System is not broken. The OSP/SEANC Study Committee has concentrated its recommendations on ways to improve the pay plan and ensuring adequate funding in the future along with recommendations to provide funding to enable the state pay plan to "catch up" with the general economy.



### Pay Plan Recommendations

1. **Fully fund all components of the Comprehensive Compensation System and change the name to the *State Employees Pay Plan*.** Pay increases should receive priority consideration early in the budget process. If the State of North Carolina is to “sufficiently compensate its employees to encourage excellence of performance, maintain a competent work force, and remain competitive with the labor market,” full funding for the *State Employees Pay Plan* is a must. The current name is difficult to pronounce and not commonly recognized. Changing the name reflects how most employees refer to the compensation program.
2. **Link the cost of living (COLA) increases for permanent, time-limited and probationary employees to the Consumer Price Index of the previous calendar year.** All employees are impacted by inflation. This would keep state employees and salary schedules even with inflation.
3. **Fund the Performance Bonus appropriation to at least 2% of budgeted salaries.** The Performance Bonus is an important incentive for rewarding employees who perform above expectations.
4. **Adopt, as a permanent change, the recent legislative practice of granting the Career Growth Component as a bonus for employees who are at the top of their salary range.** While reaching the top of the salary range has become rare due to inadequate funding, approximately 4% of state employees have reached that point. This is a way to reward them without extending the salary range.
5. **Approve special appropriations totaling at least 5% of budgeted salaries to enable the pay plan to catch up with inflation rates over the past seven years.** For several years, the COLA increases have not kept pace with increases in the Consumer Price Index. (See Figure 1) A 5% across-the-board raise would increase the salaries of all pay grades from top to bottom and make state salaries more competitive in a tight labor market.

## Performance Management System

### Background

The current performance management system was designed by Developmental Dimensions International (DDI) and implemented by the Office of State Personnel in 1989. The performance management system is the foundation on which the Comprehensive Compensation System is built. The system was designed to ensure that all employees:

1. are aware of what is expected of them,
2. are provided with continuous feedback about their performance,
3. are provided with opportunities for education, training and development, and
4. are rewarded in a fair and equitable manner.

The performance management process includes three steps that supervisors and managers take in interacting with employees about their performance: planning, managing and appraising. At the end of the work cycle, managers then determine a rating. North Carolina currently uses a 5-point rating scale (unsatisfactory, below good, good, very good and outstanding) with two rating levels that exceed expectations.

Other components of the performance management system include the agency head appointing a Performance Management and Pay Advisory Committee (of at least 5 members representative of the agency's workforce) to review the performance pay plan, performance training program and distribution of performance increases. Employees are also permitted to dispute performance ratings and performance pay decisions through their agency's grievance procedure, or through an agency's established pay dispute resolution procedure. Supervisors must inform the employee in writing of their overall summary rating, failure to receive an increase, the amount of the increase and the procedure to seek resolution of their dispute.

Employees' perceptions about the performance recognition and reward system were documented in the 1995-1996, 1996-1997 and 1997-1998 Annual State Employee Surveys, and matched what the OSP/SEANC Study Committee heard in 1999.

- Employees believe that individual workplans are helpful and supervisors provide feedback about performance.
- Employees feel that some management lacks the initiative to address or correct poor performers.
- Employees state that the system fails to reward hard work, and that good performers are typically rewarded with extra work.
- Employees believe that good performers and poor performers are likely to receive the same rewards.
- Employees object to current measurement methods, specifically citing the futility of measuring performance without adequate merit funding.

Additional feedback outside the annual survey cited the need for a higher level of commitment to the system, better communication between supervisors and employees, a simplified system, and additional training on the mechanics of the system.

*Commitment* - Although many factors impact the implementation of a particular employee performance system, the single most important element is "commitment". It is essential to have top management's commitment to the process for any system to work effectively. Significant funding has not been tied to the performance management system, thus resulting in varying levels of commitment to the process.

- Some managers spend an inordinate amount of time developing the workplan, collecting data and documenting performance. They believe that despite the lack of funding, it is however, a useful tool for monitoring an employee's progress.
- Other managers express frustration with the mechanics of evaluating performance, when adequate monetary rewards do not exist for employees.
- Managers typically utilize alternative ways (position reclassifications, in-range adjustment increases, skill-based pay or broad-banding programs) to offer financial rewards to employees.

*Communication* - There was much discussion regarding how much time the current performance management process takes, especially if a supervisor has numerous employees. At the beginning of each cycle, managers and employees should discuss and agree upon expectations, methods of evaluation, needed career development and training, and the rating scale. Interim reviews should be conducted at least mid-cycle to monitor an employee's progress and provide assistance with developmental needs. The committee learned that some managers are diligent in communicating with employees at the beginning of the process and throughout the cycle, while others, based on the number and diversity of employees, spend limited amounts of time providing feedback.

*Simplified System* - Managers and employees alike indicate that the performance management system is too complex. They cite that simplifying the system could possibly add commitment to the process, consistency in expectations, and fairness in rating employees. Several agencies have modified the current system to make the system more manageable and user friendly. Examples of those modifications include:

- Modified the term "Dimensions" to "Core Values."
- Standardized workplans for all employees.

The study committee explored the possibility of a 3-point rating scale (*needs improvement* to replace the *below good* terminology, *meets expectations* to replace the *good* terminology, and *exceeds expectations* to collapse the *very good* and *outstanding* categories). The study committee recommends that agencies be given more flexibility, subject to State Personnel Commission approval, in tailoring their appraisal systems to meet agency needs.

Training - The performance management system is closely aligned with other human resource systems such as position classification and organizational design, salary administration, and employee relations. It is important to continually educate employees and supervisors on the purpose of the system and how it works.

The current Performance Management System is an adequate system, if used as designed and tested. It meets a good performance management criteria of developing performance expectations, providing continuous feedback, and documents mechanisms for awarding pay increases. The OSP/SEANC Study Committee however recommends several suggestions to make the system more efficient and effective.

## PERFORMANCE MANAGEMENT SYSTEM RECOMMENDATIONS

1. **Develop and publicize a “state philosophy” of what the performance management system is designed to accomplish and how it is to be implemented.** That philosophy should continually emphasize the goal of two-way communication between employee and supervisor.
2. **Provide flexibility in developing appraisal systems that meet client needs.** Agency plans would be subject to State Personnel Commission approval.
3. **Develop standard performance expectations for classes that have common duties that can then be uniformly applied throughout state government.** This would not of course preclude a supervisor’s flexibility in tailoring workplans.
4. **Provide sample forms with performance expectations written at the good or meets expectation level already completed to help managers begin the process.**
5. **Write the instructions so that they can be easily understood and applied by all supervisors and employees.**
6. **Provide periodic training updates for newly appointed and long-term employees on how to set expectations. Also provide technical assistance and annual updates to supervisors and managers beyond the initial training. Develop training videos, or publish helpful information on the internet to assist managers and supervisors, if on-site technical resources are not available.** This may require a commitment of resources and staff not currently available in some agencies.
7. **Automate some of the forms, making the process more user friendly.**

## Conclusion

When the OSP/SEANC Study Committee held our initial meeting in March, 1999, we quickly realized that our success would rely heavily on reviewing the current system, researching other human resource performance management and pay practices, as well as getting as much input as possible from state employees in order to develop our recommendations. This input was achieved largely through the organizational structure of the State Employees Association of North Carolina. Regular updates were given to the SEANC Board of Governors, and the committee's preliminary recommendations were presented at the June Board of Governors' meeting. As a result of feedback from this group, some recommendations were modified and others dropped.

In July, 1999, the SEANC Policy Platform Committee adopted five Policy Platform Objectives to address committee recommendations requiring legislative action. ***The final step in the SEANC process occurred at the annual convention in September where the OSP/SEANC Study Committee's final report was presented to over 800 delegates representing almost 60,000 state employees for approval. The recommendations and the Policy Platform Objectives were passed unanimously by the Convention.***

OSP's Senior Management Team reviewed the final recommendations of the committee in August. While many of the recommendations on the pay plan must be approved by the legislature, improvements to the performance management program will be addressed internally by OSP, with input from a multi-disciplinary work team.

On behalf of state employees across North Carolina, the OSP/SEANC Study Committee requests that the LRC Committee on Pay, and the State Personnel Commission act favorably on these recommendations. Members of the Study Committee will be glad to provide additional information as needed.

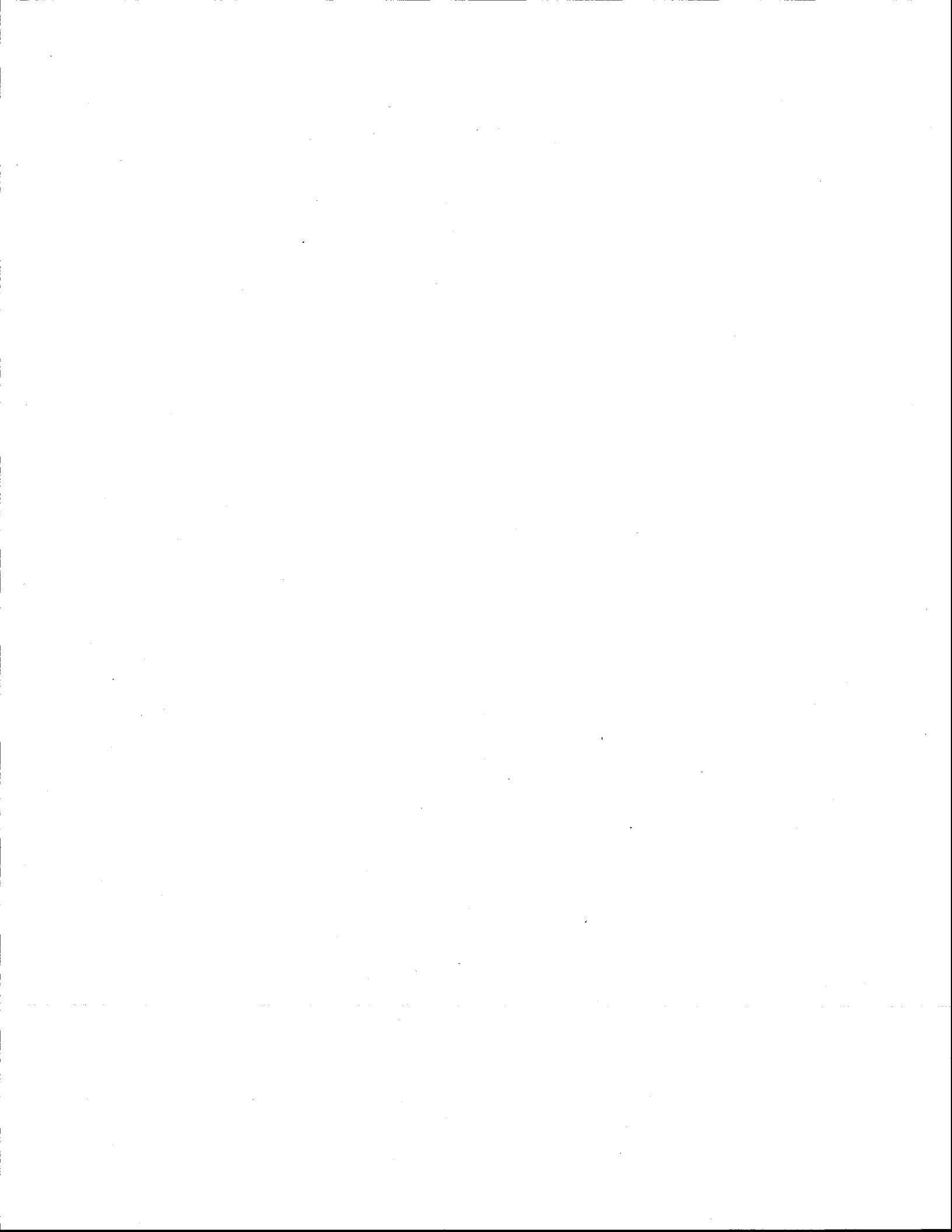
# LRC on State Employees & Teachers Compensation Committee

## Estimated FY 2000-2001 Cost Analysis of SEANC Pay Plan Proposal (Revised April 2000)

FY 2000-2001 (\$millions)

SEANC Proposals	General Fund			Highway Fund		
	SPA Employees	Non-SPA Employees*	Total	SPA Employees	Non-SPA Employees	Total
1) Fund Career Growth Component at a minimum increase of 2% per annum.	\$42.00	\$58.00	\$100.00	\$8.60	\$0.12	\$8.72
2) Tie Cost of Living adjustment to the Consumer Price Index (CPI) for the previous calendar year. For calendar year 1999 the assumed average CPI rate is equal to 2.2%.	\$46.20	\$63.80	\$110.00	\$9.46	\$0.13	\$9.59
3) Fund the Performance Bonus at a minimum of 2% of total payroll.	\$42.00	\$58.00	\$100.00	\$8.60	\$0.12	\$8.72
4) Fund 5% salary increase to account for increases in the Cost of Living Adjustment that did not match the CPI.	\$105.00	\$145.00	\$250.00	\$21.50	\$0.30	\$21.80
<b>Total Cost of Proposal FY 2000-2001</b>	<b>\$235.20</b>	<b>\$324.80</b>	<b>\$560.00</b>	<b>\$48.16</b>	<b>\$0.67</b>	<b>\$48.83</b>

\* Excludes salaries for Public School Teachers, Instructional Support and Principals





## PERFORMANCE MANAGEMENT

### OVERVIEW - CURRENT SYSTEM

- Current System established in 1989 by General Statute 126-7
- The cycle has 3 phases: Planning to establish the work plan, Managing to monitor performance, and Appraising to evaluate results
- State Cycle = July 1 through June 30
- Current 5 point rating scale = Unsatisfactory, Below Good, Good, Very Good, Outstanding
- Employee and supervisor jointly develop work plan
- Training provided to every employee and manager
- Work plan components:
  - Key Responsibilities/Results
  - Results Expectations
  - Tracking Source and Frequency
  - Results
  - Dimensions (Work behaviors such as analysis, judgement, etc. which are necessary to accomplish the tasks identified in the Key Responsibilities/Results)
  - Behavioral Expectations
- Interim review to check performance progress in mid-cycle (January)
- Summary rating on 5 point scale
- Improvement Plan to correct performance deficiencies
- Development Plan to enhance employee skill growth
- Dispute Policy to address grievance issues
- Multiple levels of review requiring 3 signatures (manager, supervisor, employee)
- Ratings are entered into PMIS for legislative increase purposes
- Comprehensive Pay plan
  - Unsatisfactory = No salary increase
  - Below Good = Cost-of-living-adjustment
  - Good = Cost-of-living-adjustment, Career Growth Recognition Award
  - Very Good & Outstanding = Cost-of-living-adjustment, Career Growth Recognition Award, Performance Bonus

### RECOMMENDATIONS

Possible recommendations for system improvement depend on multiple variables.

- A 3-point scale is recommended if:
  - The organization's goal is to simplify
  - The pay plan continues current structure
  - The purpose is use as a development tool
  - Uniformity is a goal
- A 5-point scale is recommended if:
  - The organizations goal is to document performance more precisely
  - The Comprehensive Pay Plan is fully funded
  - The intent is to distinguish levels of performance for promotional considerations
- Variable scales are recommended if:
  - The One-size-fits-all philosophy is not appropriate because of varying organizational needs
  - Flexibility between agencies is desirable
  - A State 3-point scale is established and a conversion scale is used to translate the other scales back to the 3-point scale for pay and reporting purposes

## RESEARCH

A 1997 survey by Development Dimensions International, Inc. which included 88 organizations composed of both private industry and government indicates:

- 89% of organizations have a performance management system
- The average age of systems is 3-5 years old
- 78% of organizations conduct a yearly review
- 51% of organizations train managers on how to use their system
- 22% of organizations train non-managers
- 38% of organizations use competencies (behaviors/dimensions)
- 20% of organizations use team-based objectives
- Team-based objectives are becoming more common
- 20-25% use peer input, customer feedback, direct reports, etc.
- Use of peer-input, etc. is becoming more common
- Multi-rater feedback (360) is becoming more common
- More frequently, organizations rely on single over-all rating, summary statements and/or numerical ratings
- Use of predetermined forced rankings has decreased by 30% since 1993

## LITERATURE REVIEWS INDICATE

- Employees generally dislike single summary ratings because they appear to be reflections of individual worth versus indicators of levels of performance.
- Organizations should not tie performance management to other Human Resource activities such as pay, promotion, demotion, etc.
- Organizations should use performance management as a developmental tool to increase employee skill levels
- To be completely effective, performance management needs strong support from senior management:
  - Through leaders modeling effective performance management practices
  - Including performance management issues in meeting agendas
  - By requiring training for leaders at all levels
  - Reinforcing performance management in everyday discussions

## BEST PRACTICES

The following components represent best practices in performance management. North Carolina State Government currently utilizes these elements in its system.

- **Behaviors/Competencies** - reflect not only the expected level of performance but also how the results are to be achieved. Behaviors are observable and therefore reportable, versus personality traits which are not.
- **Legally defensible** - system features reduce the exposure of the organization to legal challenges.
- **Multiple sources of feedback** - encourage more accurate performance reporting by reducing single source bias.
- **Documentation** - creates a written record to support performance discussions, for monitoring purposes, and for instances of litigation.
- **Training** - develops the skills of managers and supervisors to operate the system more effectively and consistently across work units.
- **Based on job descriptions** - links job performance to the strategic goals of the organization.
- **Developmental** - focuses efforts of the managers and supervisors away from the punitive aspects of performance management and toward improving the employee's skill sets.
- **Dispute process** - provides a critical relief mechanism for instances of grievances.

## PROS & CONS

The pros & cons of the present performance management system are listed below:

PROS	CONS
<ul style="list-style-type: none"> <li>Distinguishes varying levels of performance for promotional purposes</li> </ul>	<ul style="list-style-type: none"> <li>Supervisors may have more difficulty distinguishing between levels</li> </ul>
<ul style="list-style-type: none"> <li>Employees are familiar with the current system</li> </ul>	<ul style="list-style-type: none"> <li>Comprehensive Pay Plan has not been fully funded</li> </ul>
<ul style="list-style-type: none"> <li>Transitional level of BG allows for improvement of slight deficiencies</li> </ul>	<ul style="list-style-type: none"> <li>Ratings are skewed toward Very Good and Outstanding because there are few other ways to reward employees. As a result, very few ratings of Unsatisfactory or Below Good occur.</li> </ul>
<ul style="list-style-type: none"> <li>More points on a rating scale favors more accurate ratings</li> </ul>	<ul style="list-style-type: none"> <li>The lack of tangible and intangible incentives coupled with the amount of time it requires to distinguish between many levels of performance negate the benefits of the accuracy of a longer scale. Therefore a longer scale is impractical because of diminishing returns.</li> </ul>
<ul style="list-style-type: none"> <li>Behaviors are identified</li> </ul>	<ul style="list-style-type: none"> <li>Employees dislike current amounts of documentation (10-15 pages per work plan)</li> </ul>
<ul style="list-style-type: none"> <li>Legally defensible based on court decisions from the early 1970's on.</li> </ul>	<ul style="list-style-type: none"> <li>The system is perceived as being very complicated (i.e. Large instruction manual, dictionary of dimensions, lengthy training required)</li> </ul>
<ul style="list-style-type: none"> <li>Clarifies the expectations of the organization</li> </ul>	<ul style="list-style-type: none"> <li>Employees don't like it (employee survey)</li> </ul>
<ul style="list-style-type: none"> <li>3 levels of review (employee, supervisor, manager)</li> </ul>	<ul style="list-style-type: none"> <li>Discipline is not enforced for poor performance</li> </ul>
<ul style="list-style-type: none"> <li>Establishes expectations at beginning of cycle</li> </ul>	<ul style="list-style-type: none"> <li>Outstanding performance is not rewarded</li> </ul>
<ul style="list-style-type: none"> <li>Documents performance for later reference by both employee and management</li> </ul>	<ul style="list-style-type: none"> <li>Current system is perceived as being unfair</li> </ul>
<ul style="list-style-type: none"> <li>3 reviews (initial, interim, final)</li> </ul>	<ul style="list-style-type: none"> <li>Not completely automated</li> </ul>
<ul style="list-style-type: none"> <li>Feedback from numerous sources</li> </ul>	<ul style="list-style-type: none"> <li>Terminology is not completely familiar to some employees (i.e. Dimensions)</li> </ul>
<ul style="list-style-type: none"> <li>Training is provided</li> </ul>	
<ul style="list-style-type: none"> <li>Similar to other states' systems</li> </ul>	

### OTHER STATES' PROGRAMS

An informal review of performance management programs in other states indicates a wide range of approaches to rating systems. The number of behavioral anchors (points) on rating scales ranges from 2 to 5. Some states tie pay directly to a performance rating, while some do not. (see table)

STATE	Number of Scale Anchors(Points)	Rating Scale Terms	Pay Linkages
Alabama	5	does not meet, partially meets, meets, exceeds, consistently exceeds	N/A
Colorado	3	needs improvement, fully competent, peak performer	N/A
Delaware	5	Unsatisfactory, needs improvement, Meets Expectations, exceeds expectations, Distinguished	N/A
Florida	2	pass, fail	No linkage
Georgia	4	does not meet, meets, exceeded, far exceeded	Meets = 3%, Exceeded=5%, Far exceeded=7%
Idaho	4	does not meet, meets, exceeds, significantly exceeds	N/A
Kentucky	3	fails, meets, exceeds	N/A
Louisiana	5	poor, needs improvement, satisfactory, very good, outstanding	Merit not processed if less than Satisfactory
New York	Varies (2,3,5)	Depends on particular union: majority were 5pt., now 3 pt., moving toward 2 pt. (satisfactory, unsatisfactory)	No linkage
Oregon	Varies (2-5)	Varies	N/A
Pennsylvania	5	unsatisfactory, needs improvement, satisfactory, commendable, outstanding	No linkage
South Carolina	4	N/A	N/A
Tennessee	5	not acceptable, marginal, good, superior, excellent	N/A
West Virginia	3	needs improvement(1-1.5), meets(1.51-2.5), exceeds (2.51-3)	Numerical rating determines percentage raise
Washington	5	unsatisfactory, needs improvement, meets, exceeds, outstanding	N/A
United States Office of Personnel Management	Varies 2-5	Varies. Most use 5 point however	N/A

# SEANC's Response to Bill Being Considered by the State Employees' and Teachers' Compensation Committee

April 7, 2000

The State Employees Association of North Carolina (SEANC) appreciates the State Employees' and Teachers' Compensation Committee's efforts to improve the Comprehensive Compensation System and allocate adequate funding for it. We thank you for rolling the recommendations from SEANC and the Office of State Personnel (OSP) into the proposed bill now under review.

After the committee's last meeting, it is apparent that two issues remain unresolved: a new name for the Comprehensive Compensation System and the appraisal system's performance scale that determines which pay components State Personnel Act employees receive. SEANC asks that you consider the following proposals in finalizing the bill to send to the Legislative Research Commission:

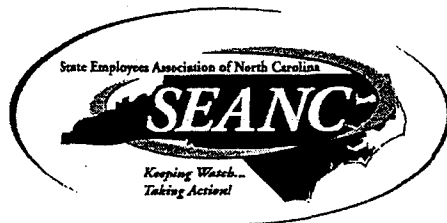
First, we agree with your legislative staff that the Comprehensive Compensation System's proper name should become "State Personnel Act Pay Plan" to identify the specific employees subject to the plan. We also agree with OSP that using "State Pay Plan" in subsequent references may cause confusion since other OSP documents use that name. We propose that the plan's formal name be changed to the "State Personnel Act Pay Plan" and that the informal name become "State Employees Pay Plan (STEPP)" in references throughout G.S. 126-7. State employees and legislators alike can easily remember the "STEPP" when thinking about a pay plan that allows employees to move through their pay grades with career growth awards.

Second, we ask for flexibility in the appraisal system's performance scale rather than requiring all agencies to use the same one. The OSP/SEANC Study Committee concluded, and SEANC concurs, that neither the five-point scale now used nor a three-point scale would meet the needs of all the diverse work groups subject to the pay plan. Some state agencies do well with a five-point scale that can be a management tool for recognizing varying levels of excellence in employee performance. For example, a Department of Public Instruction (DPI) manager can recognize an education consultant's initiative in his interaction with a local school system by giving him an "outstanding" on his yearly appraisal. If DPI had only a three-point scale, then education consultants putting less time and effort into their work with local school systems could receive the same appraisal as this outstanding performer whose effort exceeds theirs. A three-point scale would better serve other state agencies, such as the Department of Correction. In this case, employees assigned to tower duty either meet expectations, exceed expectations or their performance is deemed unsatisfactory.

Because of these agency differences, SEANC requests that the committee approve bill language that allows the State Personnel Commission to set up an appraisal system best suited to each agency. The language agreed upon earlier by SEANC and OSP allows that flexibility but also maintains uniformity by requiring that all appraisal systems approved define parameters for employees whose performance is deemed unsatisfactory by management or whose performance meets or exceeds management's expectations. We ask that the committee stick with this language in the bill's final draft.

Again, SEANC thinks the bill now before the committee will go a long way toward recruiting, rewarding and retaining the best and brightest state employees. We hope the committee will consider the above recommendations in finalizing that bill April 20<sup>th</sup>.

If we may provide you additional information, please do not hesitate to call our office before that meeting. We thank each of you for your time and consideration of this very important issue for state employees.



# COMPREHENSIVE COMPENSATION SYSTEM: Proposed Changes Requested By SEANC

## ISSUE:

*The Legislative Research Commission's State Employees' & Teachers' Compensation Committee has concluded that the Comprehensive Compensation System outlined in G.S. 126-7 fails to **RECRUIT**, **REWARD** and **RETAIN** the best and brightest state employees, which is the statute's intent. Inadequate funding of that pay plan has caused the 91,126 employees subject to the State Personnel Act (SPA) to fall behind inflationary factors and wage increases of their counterparts in the public and private sectors. The committee is preparing, at SEANC's urging, to send forth a bill to amend the statute and allocate the funding needed to make the plan work properly for all SPA employees. The State Employees Association asks each committee member to support the following points in the final draft of the bill:*

- 1** Change "Comprehensive Compensation System" to "State Personnel Act Pay Plan" in the first reference in G.S. 126-7 and call it "State Employees Pay Plan (STEPP) in subsequent references throughout that statute.
- 2** Tie the cost-of-living adjustment to the annual increase in the Consumer Price Index of the previous calendar year to reflect a true measure of inflation.
- 3** State the intent of the General Assembly to fund the State Personnel Act Pay Plan yearly, with the career growth recognition award becoming part of the continuation budget and the cost-of-living adjustment and performance bonus becoming part of the expansion budget.
- 4** Give the State Personnel Commission flexibility in creating performance appraisal systems for each agency that define parameters for employees whose performance is deemed unsatisfactory, meets management's expectations or exceeds management's expectations.
- 5** Make employees who have reached their pay grade's maximum eligible for a 2 percent bonus in lieu of a career growth award.
- 6** Make all SPA employees eligible for an annual cost-of-living increase.
- 7** Fully fund the pay plan with a 2 percent career growth award, a cost-of-living adjustment matching the Consumer Price Index and a performance bonus equaling 2 percent of total payroll.
- 8** Fund a 5 percent salary increase to cover the difference between cost-of-living adjustments and increases in the Consumer Price Index since 1992-1993.

## SOLUTION:

State employees should be rewarded for exceptional performance and career service. The State Personnel Act Pay Plan can do that if administered uniformly throughout state government on a yearly basis. The State Employees Association URGES this committee to support this bill to improve that pay plan and provide adequate funding for it!



