

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

2040

2001 SENATE APPROPRIATIONS

SB 2040

2001 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2040

Senate Appropriations Committee

Conference Committee

Hearing Date January 15, 2001

Tape Number	Side A	Side B	Meter #
Tape #3	x		0.0 - 17.4
Committee Clerk Signature <i>Janice Pietach</i>			

Minutes:

Senator Nething Opened the hearing on SB2040.

Craig Caspers, Vice President of the State Board of Higher Education (SBHE), testified on SB2037, SB2038 and SB2040 (a copy of the written testimony is attached).

Larry Isaak, Chancellor, North Dakota University System, testified in support (a copy of written testimony is attached).

Senator Schobinger: On page 2, first paragraph of your testimony -- what's different in this bill from what you are currently doing?

Chancellor Isaak: Excludes reporting requirements; appears disincentive to incentives.

Senator Nething: You will still report on this? Annual reports will include this?

Chancellor Isaak: Will be part of the overall salary increases in report.

Senator Robinson: Is this concept used in any other state?

Chancellor Isaak: I don't know, but wouldn't be surprised.

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Senate Appropriations Committee

Bill/Resolution Number SB2040

Hearing Date January 15, 2001

Senator Tomac Is it the name or the heartburn of reporting? We could change irregularities to positive management --- wouldn't all state agencies have the same argument when using?

Chancellor Isaak: Same logic could apply to all agencies. It's a look at the ends more so than the means. Public would perhaps be second guessing the management decisions; it's the whole philosophy of management and oversight.

Senator Heitkamp: It's trust --- when we look at President Thigpen and President Chaffee -- their performances and then their salaries -- rewards don't appear to be there? Is it the big schools and the small schools?

Chancellor Isaak: It's a matter of performance and other things taken into consideration. In part, we do comparison with other states -- there is a variance within the system among campus presidents. It does not relate to whether the school is large or small. The SBHE no longer practices across the board raises for college presidents. Salaries change each year; this bill is a one time performance, one time adjustment.

Senator Heitkamp: You did a number of these during a long series of time -- when you did have flexibility?

Chancellor Isaak: High always brings questions.

Senator Robinson: Could this be a leverage for retention? When faculty are lured away because of additional dollars -- could this be an effective tool?

Chancellor Isaak: Could be -- could even establish an endowment.

Senator Schobinger: Can't be done currently?

Chancellor Isaak: My answer remains the same; this bill looks more at ends more so than means.

Senator Robinson: SB2037, SB2038, and SB2040 are really a package?

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Senate Appropriations Committee

Bill/Resolution Number SB2040

Hearing Date January 15, 2001

Chancellor Issak: Gives us flexibility with accountability. We were pleased to submit the concepts, and it was determined best to be in separate bills

Senator Nething: Appears to be a change in atmosphere -- college presidents are saying good job --- now I'll present you an irregular award? Wording gives wrong signals.

Dave Clark, Vice President of Operations and Corporate and Continuing Education, Bismarck State College, presented testimony in support of SB2040 (a copy of written testimony is attached).

Hearing on SB2040 was closed by Senator Nething.

Full Committee - February 7, 2001 (Tape 1, Side B; Meter No. 19.5-22.6)

Senator Nething reopened the hearing on SB2040.

Review of the bill by the full committee -- Senator Solberg moved a DO PASS; Senator Lindaas seconded the motion. No request for discussion. Roll Call Vote: 10 yes; 0 no; 4 absent and not voting. Senator Lindaas accepted the floor assignment.

Date: 2-7-01

Roll Call Vote #: 1

2001 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2040

Senate Appropriations Committee

Subcommittee on _____

or

Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass

Motion Made By Sen Solberg Seconded By Sen Lindas

Senators	Yes	No	Senators	Yes	No
Dave Nething, Chairman	✓				
Ken Solberg, Vice-Chairman	✓				
Randy A. Schobinger	✓				
Elroy N. Lindas	✓				
Harvey Tallackson	✓				
Larry J. Robinson	✓				
Steven W. Tomac					
Joel C. Heitkamp					
Tony Grindberg	✓				
Russell T. Thane					
Ed Kringstad					
Ray Holmberg	✓				
Bill Bowman	✓				
John M. Andrist	✓				

Total Yes 10 No 0

Absent 4

Floor Assignment Senator Lindas

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE (410)
February 7, 2001 11:27 a.m.

Module No: SR-22-2570
Carrier: Lindaas
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2040: Appropriations Committee (Sen. Nothing, Chairman) recommends DO PASS (10 YEAS, 0 NAYS, 4 ABSENT AND NOT VOTING). SB 2040 was placed on the Eleventh order on the calendar.

2001 HOUSE APPROPRIATIONS

SB 2040

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **SB2040**

House Appropriations Committee

Conference Committee

Hearing Date **March 12, 2001**

Tape Number	Side A	Side B	Meter #
I	x		0 - 1670
Committee Clerk Signature			

Minutes:

HOUSE APPROPRIATIONS COMMITTEE HEARING ON SB2040.

Rep. Timm: We will open the hearing on SB2040.

Larry Isak, Chancellor North Dakota University System. Followed written testimony and answered questions from the committee after his presentation.

Rep. Timm: You have not been reporting the bonuses, is that right?

Larry Isak: We have been reporting the bonuses, like if someone gets \$1000 at the end of the year, we have been reporting those, we have not been reporting such payments for faculty of the year awards or for temporary adjustments when somebody takes on additional duties during a period of time. But now we have been told that we have to report all of those as well.

Rep. Timm: What inspired all of a sudden, somebody saying that you had to, obviously you were doing this for a long period of time and all of a sudden somebody, was it through an audit or what?

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House Appropriations Committee

Bill/Resolution Number SB2040

Hearing Date March 12, 2001

Larry Isaak: Yes, it was through the audit a year ago or so when they looked at the statute the auditors thought those types of things should be reported as well.

Rep. Delzer: I guess I could live with the idea of you not reporting the teacher of the year, or the faculty of the year or something of that sort, but the bonuses, I think that should continue to be reported and the way I read this bill that would take that out of the reporting requirements.

Larry Isaak: That's correct, and when your reporting something for rewarding somebody and then it gets reported as an irregularity it seems to have cross purposes in what your trying to accomplish in awarding someone for doing a good job.

Rep. Delzer: Maybe should change the word irregularities and put it back to reporting them.

Larry Isaak: The reporting is not such a onerous process, its just that our campuses look at and say that if we have to report all of these things, does it set up an environment of second guessing what they did for an employee, and some other employee doesn't like it an goes to a legislator and they get talked to in front of a legislative committee. That is the type of thing that I heard our president saying, if were going to do it then give us an incentive to do it and let us do that.

Rep. Delzer: I guess I disagree with that, I think its the prerogative of the legislature to know when you do something different then what you initially planned on, and I don't see a problem with it. If you want to change the word irregularities, I wouldn't mind that, but doing away with the reporting I guess I have a problem with.

Rep. Timm: Any other questions?

Rep. Skarphol: I guess I am inclined to agree with Rep. Delzer, I'm a little curious why the University System is unique to this, why aren't other state agencies having similar problems if they do temporary salary adjustments or bonuses and why aren't they in here complaining as

well. I would think that if we want to do something I would say to just to leave the wording and take out temporary salary adjustments and you still report the bonuses.

Larry Isaak: It certainly is the prerogative of the legislators if they decide how they want to do this. We prefer the bill the way it was introduced, however, if you have other thoughts on this it certainly is your prerogative.

Rep. Glassheim: How are the awards set up, how does it work, what kind of dollars are we talking about?

Larry Isaak: As I said previously, in the past year I think there was a total of 60 awarded at a couple of campuses, those are determined as a part of their salary administration plan, the departments would be involved in that, whatever department it is would be recommended on to the dean or vice president and then they would set that. Perhaps Dave could give you a better insight into the campus process. Last year it was about \$72,000 of those two institutions that reported.

Rep. Timm: Any further questions of Mr. Isaak?

Dave Clark, Vice President of Operations and Corporate & Continuing Education:
Followed written testimony handout and answered questions after his testimony.

Rep. Skarphol: Do you folks at BSC have a written policy or written criteria for someone to have to achieve in order to be eligible for merit pay?

Mr. Clark: What we require is first that they have a current employee evaluation in their file, if they do not have a current evaluation then they are not eligible, secondly, then we lay out in the salary administration policy, mainly general information relative for supervisors to utilize them in making recommendations for meritorious type increases. The bulk of the dollars do not go into this category of this type of an increase so it is some what limited in form and the cabinet goes

about the process of evaluating the recommendations that come from supervisors to make final determination regarding merit.

Rep. Skarphol: My question is, does the employee who may get the merit increase, does he have a written guideline to work from to know what he has to do to be able to achieve it?

Mr. Clark: No he doesn't

Rep. Skarphol: In your testimony you talk about movement from a means accountability system to an ends accountability system, can you elaborate on that for me?

Mr. Clark: I think that gets back to the outcomes that are a result of the round table legislation, there is going to be financial and programmatic outcomes that the legislature is going to be requiring of the institutions and so as long as the institutions are meeting those outcomes that are agreed to upfront, that, that should be the measurement on how you perform. That should be the primary criteria by which you are evaluated, not by the individual action or individual activity that helps you meet the end.

Rep. Kliniske: My understanding is that this is a reporting requirement and it's not an approval from the budget section, simply a report to the budget section, my question is this, we as legislators set up programs such as this for incentives for employees in several state agencies, how if we don't have a reporting requirement, how are we as legislators to know that it is working?

Mr. Clark: I believe Rep. Kliniske, are you referring to the cash incentives awards that has been put in place?

Rep. Kliniske: I'm referring to any type of an incentive system, and we set these things up so that we can recognize our employees and we allow agencies to recognize their employees, but without a reporting requirement, how are we to know that what we have set up is working?

Mr. Clark: It certainly is the legislators prerogative if they want a report on the these types of increases they certainly will be provided. My question and my comment would be, I don't know what the value of that information would be to a legislative body after the fact. If your staying within your legislative appropriations that are granted and your staying within the salary administration plan that you have put in place as an institution.

Rep. Kliniske: The legislative benefit to that is to know whether we need to change the system or is it working or whether it needs to be tweaked here or there.

Rep. Gulleson: Do you feel that the merit pay bonuses incentives have had the effect that you would have liked at your college, do they tend to be an incentive or motivator to people. How has it been in terms of the overall morale on campus.

Mr. Clark: I can a couple of points, one is that we didn't do it this last year because we had heard that OMB through the budget section was working on some criteria that could be utilized by all state agencies to get at Rep. Skarphol's question of having a solid and consistent basis for meritorious type increases, so we kind of pulled back from that because of that. However, I will say that the benefit of this, is that the merit type of increase doesn't go into your base so a meritorious action on the part of an employee isn't forever paid out because it doesn't become part of your base salary forever more. Its a one time increase that can be granted and be of benefit for some activity or some meritorious work that has been done. I think that it is a good management tool that can be utilized if properly administrated.

Rep. Timm: Any other questions? Any other testimony in support of SB2040? Any testimony in opposition to SB2040? Hearing on SB2040 will be closed.

End of House Appropriations Hearing on SB2040. (1670)

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2040A

House Appropriations Committee

Conference Committee

Hearing Date: March 16, 2001

Tape Number	Side A	Side B	Meter #
1	x		2395 - 4290
Committee Clerk Signature <i>L J Donkin</i>			

Minutes:

HOUSE APPROPRIATIONS COMMITTEE ACTION ON SB2040A.

Rep. Timm: We have SB2040 before us to take action on. Rep. Kliniske you have an amendment to this bill, is that correct?

Rep. Kliniske: Yes I do, The motion is that anywhere in the bill that it says the word "irregularity" to change that word to "adjustment" and what ever tense it is in the word will follow.

Rep. Timm: Can you give us an explanation of why you want to do that?

Rep. Kliniske: One of the reasons that they don't appreciate it, when I say they, I mean the University officials don't like the way its worded as that it seems very negative and it seems as though they are trying to give incentives to their employees that an irregularity is not the way to go. In visiting with Chancellor Isaak he had stated that when I brought up that word that the word adjustment would be more suitable and more positive.

Rep. Delzer: Is that your only amendment, or are you removing the new language too?

Rep. Kliniske: Yes, I apologize. The second part of the amendment would be to remove the new language and then on line 18 change the word "Next" to "Final" and the reason for that is I do feel that it is important for the university to report the legislative assembly and especially to the budget section what they are doing. By using the word "Next" they would have to report every quarter if they happen to give out something in that quarter, by saying "Final" means that they would be able to come in at the final budget section and just give us all of the bonuses and whatever they had given over the biennium in one report.

Rep. Timm: What's the full effect of what she wants to do Joe?

Joe Morrisette, Legislative Council: The way that section reads is if OMB discovers any irregularities in the fiscal practices of the state, that those would be noted and reported to the budget section, and one of the irregularities is bonuses and temporary salaries adjustment and cash incentive awards. So if we replace "adjustments" with "irregularities" it will kind of change the meaning of the section. Adjustments now are just one of the types of irregularities that need to be made note of.

Rep. Timm: The whole purpose of the bill originally was to exclude the employees of the university system, right? If we change the word "irregularities" and take out the new language what are we gaining? I think we're losing.

Rep. Wald: Joe, the state auditors office audits all of these agencies every biennium and reports to the audit and fiscal review committee, what would the interaction be between this bill if it passes and the mission of audit and fiscal review?

Joe: I think if the bill is changed so that a temporary salary adjustment is no longer an irregularity they would not be made note of in an audit report, because the agency wouldn't be

doing anything contrary to existing law. Now, if there is a temporary salary adjustment made and that is not reported to OMB so it can subsequently reported to the budget section, that is made note of in an audit report because that was something contrary to law.

Rep. Byerly: In order to satisfy this what we probably need to do is instead of changing the total meaning of this section is if we just remove the temporary salary adjustment statement in what is considered to be an irregularity. Because for our purposes in the budget section and also in audit and fiscal review we want to know what bonuses are paid and we want to know what cash incentive awards are going out there and maybe were going to far be getting rid of temporary salary adjustments, but I think that's more of what they are aiming for is the number of things they have to report to the budget section. Because I would be a little leery of making an on the fly change to this section, because I know how we use it in the budget section and also in the audit and fiscal review.

Rep. Timm: The whole point of the bill as I said before was to keep the law the same as it is but to exclude employees if the university system, and everybody would be subject to those laws except those people.

Rep. Carlisle: Joe, does the word "adjustment" mean that they have to report every adjustment when you use that term?

Joe: That is in existing law now and I think there has been some confusion in the past as to what that exactly means, if that means a temporary work load adjustment or if that means a one time bonus, I think that has been unclear.

Rep. Glasshelm: Does this section make bonuses, cash incentive awards, and temporary salary adjustments illegal? Or simply needing to be reported? (Reportable was the answer) So they are allowed to do them, but they must report them. Yes was the answer.

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House Appropriations Committee

Bill/Resolution Number SB2040

Hearing Date March 16, 2001

Rep. Warner: Does the term "Irregularities" include things which could be considered fraud besides things which are adjustments?

Joe: That would be correct, irregularities would be broader than just items that are listed in the middle of that paragraph.

Rep. Warner: Then if we adopt the Rep. Kliniske amendment then they would not be required to report fraud to the budget section?

Joe: In effect, yes, the meaning of the section would be changed if in every instance that we replaced "irregularities" with "adjustments"

Rep. Kliniske: May I put in a substitute motion? Obviously that's not going to work and its going to need a little more work before we throw that term in. My whole point is and what Chancellor Isaak's point was is that the term "irregularity" sounds like they are doing something wrong when they are giving cash bonuses and incentives, that was the point of trying to find a more positive word, and if that is not going to work this session, that's fine, but I still feel as though they need to report something, now whether that needs to be every single time the budget section meets maybe that is excessive so I would move that we remove the new language on line 14 and on line 18 change the word "next" to "final".

Rep. Timm: Is there a second to that motion? Seconded by Rep. Thoreson. Any discussion on that motion?

Rep. Skarphol: It really doesn't do that if you read the language, it says that the report must be presented at the final scheduled meeting of the budget section following the discovery of the irregularity expenditure activity, it really doesn't do anything, we could just as well leave it the way it is because the next meeting will be the final meeting after finding the irregularities, I would suggest that we take out the new language and kill the bill.

Rep. Kliniske: I apologize, my intent would have been to put a period after budget section then remove then "following the discovery" so that they would just report to the final budget section. That was my intent.

Rep. Delzer: I don't think we want to go to the point where its just the final budget session, I think if you find an irregularity or whatever that this has, I sat in on some of those budget sessions and this is nice to hear and you need to hear it when it is going on, I could maybe live with once a year but certainly not just the final one.

Rep. Timm: Any other discussion? We are discussing the motion which is taking out the new language putting in on line 18 the word "final" instead of "next" and then putting a period after "section" and then deleting the rest of the language on line 18 and 19.

Rep. Byerly: I need somebody like Joe to define to me what a final budget section meeting is because by definition there is no such thing as a final budget section meeting, we are a standing committee that meets all the time and there is no such thing as a final budget meeting.

Joe: We could use the words "Last Scheduled Meeting of the Interim" or we could use the term "December proceeding the legislative session" if that were appropriate which is typically a meeting during the organizational meeting.

Rep. Svedjan: I'm really confused here, why are we taking the new language out, that seems to be why the bill was before us in the first place. May I direct that question to Rep. Kliniske?

Rep. Kliniske: When I visited with Chancellor Isaak they had wanted to be excluded completely from having to report, and I said to him that I didn't think it would fly in the committee and I myself couldn't support that, and he asked if I would support being able to report rather than having to report quarterly at every single budget section, would you support reporting once in the biennium and he said yes to that.

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House Appropriations Committee

Bill/Resolution Number SB2040

Hearing Date March 16, 2001

Rep. Wald: Throughout this session we have heard about the round table in higher education and if you look at the bill it is obviously here at the request of the higher education people and they keep talking about greater accountability, we have heard that for a couple of months now and so the only way to fix this bill I think would be just to put a DO NOT PASS on it.

Rep. Timm: Any other discussion? We are going to vote on the motion to amend. All those in favor of adopting the amendment say AYE. Voice Vote. Motion Failed.

Rep. Glassheim: I would move a DO PASS on the motion.

Rep. Timm: Is there a Second? Motion dies for lack of a second.

Rep. Glassheim: I would move an amendment then, that on line 12 where it says "irregularities" I would move to amend that by deleting irregularities and inserting "it shall also report" which I think it gives us what we want, it says bonuses are not irregular but they shall be reported, which is what I think you all want.

Rep. Timm: Is there a second to that motion? Seconded by Rep. Aarsvold.

Rep. Byerly: Irregularities is an accounting term committee that is has significant meaning in this context and if you want to change anything about the reporting of it, if you change that you are going to knock out some of the kind of things that Rep. Warner was talking about. If you want to exclude these agencies from reporting temporary salary adjustments the motion should be to get rid of "and temporary salary adjustments" on line 13 and 14, but irregularities is an accounting term.

Rep. Glassheim: I hope that by my motion to distinguish between Irregularities which Rep. Warner suggested might be fraud or total misuse of funds or might be as opposed to legislative intent and those would still stand as irregularities as an accounting term but these items, bonuses, cash incentive awards, and temporary salary adjustments which you all told me are not illegal

but you want to know about would not be considered irregularities but they would still be reportable, so that the legislature would know that they are there but they would not be considered in the same category as fraud, mismanagement, or auditing serious problem.

Rep. Byerly: Something that is irregular is something that is not regular, bonuses are not a regular thing nor are cash incentive awards, and if my memory serves me correctly during the course of this reporting we found some cash incentive bonuses from an accounting standpoint highly irregular and that's the reason for the terminology there, there is nothing wrong with the term irregular it means something out of the ordinary.

Rep. Timm: Any other discussion?

Rep. Aarsvold: In response to Rep. Byerly, these are established procedures and practices and they are not irregular, they are done on an annual basis, so I would certainly dispute the definition that has been applied in this case.

Rep. Timm: Let us vote on that motion. Does everyone understand what Rep. Glassheim wants to do? All those in favor of adopting that motion say AYE. Voice Vote. Motion fails. Rep.

Skarphol moves a DO NOT PASS, seconded by Rep. Kempenich. Any discussion?

Call the roll for DO NOT PASS. (16) Yes (4) No (1) Absent and not voting Motion passes, Bill will be carried to the floor by Rep. Skarphol.

End of House Appropriations Actions on SB2040A.

Date: 3/16/01
Roll Call Vote #: 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2040A.

House APPROPRIATIONS Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken DO NOT PASS

Motion Made By SKARPHOL Seconded By KEMPEWICH

Representatives	Yes	No	Representatives	Yes	No
Timm - Chairman	✓				
Wald - Vice Chairman	✓				
Rep - Aarsvold		✓	Rep - Koppelman		
Rep - Boehm	✓		Rep - Martinson	✓	
Rep - Byerly	✓		Rep - Monson	✓	
Rep - Carlisle	✓		Rep - Skarphol	✓	
Rep - Delzer	✓		Rep - Svedjan	✓	
Rep - Glassheim		✓	Rep - Thoreson	✓	
Rep - Guleson	✓		Rep - Warner	✓	
Rep - Huether	✓		Rep - Wentz		✓
Rep - Kempenich	✓				
Rep - Kerzman		✓			
Rep - Kliniske	✓				

Total (Yes) 16 No 4

Absent 1

Floor Assignment SKARPHOL

If the vote is on an amendment, briefly indicate intent:

2001 TESTIMONY

SB 2040

Testimony on SB 2037, 2038, and 2040
To the Senate Appropriations Committee
by Mr. Craig Caspers,
Vice-president of the State Board of Higher Education
January 15, 2001

Good morning, Mr. Chairman and members of the Senate Appropriations Committee. I am here to present testimony on behalf of the Board of Higher Education on Senate Bills 2037, 2038 and 2040.

The Board of Higher Education endorses these three bills and recommends your favorable action. As you know these bills are the result of the recommendations of Higher Education Roundtable and the Legislative Council Higher Education Committee.

The Board has enthusiastically endorsed the Roundtable report and has taken action to aggressively implement the recommendations assigned to the Board. We encourage the Legislature to enact the interim committee's bills allowing the Board and University System to continue implementing the Roundtable recommendations.

The Executive Summary of the Roundtable report said this:

"While the report contains many specific recommendations, the overarching themes call for:

- *The NDUS to cease thinking of itself as a ward of the state and to take greater responsibility for its own future.*
- *The legislative and executive branches of government to free-up and unleash the potential of the NDUS -to change the budget-building, resource allocation, and audit practices to reflect the new compact between the state and the University System.*
- *The private sector to meet the NDUS half-way in establishing mutually beneficial partnerships and to provide mentors and learning opportunities for a new generation of North Dakota entrepreneurs.*
- *All parties to keep alive the spirit of the Roundtable, continuing the dialogue...."*

These three bills embody recommendations of the Roundtable related to budgeting and fiscal practices. The Board believes that these bills are timely to permit the Board and University System to carry out the new relationship of *"flexibility with accountability"* recommended by the Roundtable.

The Board is committed to the themes of the Roundtable and this new relationship. The Board's understanding about this relationship is demonstrated by the Board's action in setting its objectives after the Roundtable report was issued. The Board's first objective is to implement the Roundtable recommendations on accountability. The Board is pleased that the interim committee and Legislative Council adopted a set of accountability measures for both fiscal and non-fiscal performance. We are pleased because this allows the System and campuses to focus and report on an established set of accountability measures adopted by the Legislature. We believe these measures will help build the trusting relationship referred to in the Roundtable report.

Chancellor Isaak will provide further detailed testimony about what these bills mean to the University System and its campuses. Once again, thank you for your consideration of these bills and for allowing the Board to work with you on the Roundtable during the interim. We encourage your favorable action on these bills.

Testimony on SB2040
Senate Appropriations Committee
Chancellor Larry Isaak, North Dakota University System
January 15, 2001

What does the bill do?

SB2040 eliminates the requirement that the North Dakota University System (NDUS) report items called "fiscal irregularities" for bonuses, cash incentive awards, and temporary salary adjustments to OMB, who in turn reports the information to the Budget Section.

Consistent with Higher Education Roundtable Report

The Roundtable made the following recommendation:

"Executive and Legislative branches:

- a. *Remove all income, including tuition, which is in addition to the state general appropriation, from the specific appropriation process;*
- b. *Modify processes to provide the campuses budgetary flexibility by:*
 - removing restrictions on the use of carryover funds from one biennial period to the next.
 - allowing the campuses to determine the renewal and replacement projects to be funded on the individual campuses within their own institutional resources.
 - eliminating restrictions on pay practices.
 - providing maximum spending flexibility within base funding appropriations.
- c. *Continue to approve the construction of new facilities and the major renovation of existing facilities."*

Although the current statute does not restrict campus pay practices, the reporting and auditing requirement places an additional administrative burden on the campuses. Also, calling bonuses, temporary salary adjustments and incentive awards "fiscal irregularities" makes campus administrators reluctant to be innovative and creative using such incentive salary practices.

Current practice

The State Board of Higher Education currently develops annual budget guidelines, including salary increase policies. Within these guidelines, the Board allows the campuses to determine merit and equity increases based on the each campus's unique salary administration plan. The Board has recognized, as part of these guidelines, the use of one-time salary adjustments.

As competitive pressures for faculty and staff have grown, the NDUS has been focusing on retaining and rewarding employees who contribute significantly to organizational success. Such employees can be rewarded through increased wages, or with other types of incentives, such as one-time salary adjustments.

One-time salary adjustments are awarded for exceptional performance or for efforts beyond the normal levels generally expected of employees. Used to provide extra compensation to selected employees, one-time awards serve to highlight and recognize exceptional employee performance and contributions.

There are several advantages associated with the use of one-time salary adjustments. The first advantage is to achieve benefit from within limited salary dollars. One-time adjustments are a way to reward employees without building the increase into their permanent base pay and increasing base operating costs. They also help reduce the impact of below market salaries while still rewarding the employee. Secondly, by not building the increase into the salary base, an employee is not receiving a lifetime award for exceptional performance that may have occurred only once. This approach maintains the consistency of base salaries for a group of jobs, but allows those employees who perform at superior levels to receive additional rewards.

Currently, awarding of one-time pay adjustments in the NDUS is limited. For FY2000, NDSU awarded \$38,490 one-time adjustments to a total of 35 employees ranging from \$500 to \$1,500 each. UND awarded \$33,750 to 25 employees ranging in amount from \$275 to \$2,000 each. This is a total for the NDUS of \$72,240 out of a total annual salary budget of \$326 million (from all fund sources). These one-time pay adjustments were reported to the Budget Section in November 2000..

Each campus has developed, and had approved by the Chancellor, a campus salary administration plan, many of which include the use of one-time pay adjustments. See attached plan example. Although the current use is limited within the NDUS, one-time adjustments can be a very valuable tool in an overall salary administration strategy.

The current statute also currently requires the disclosure of "temporary salary adjustments." The NDUS makes hundreds of these adjustments each year. Temporary adjustments include, for example, pay adjustments given to a current employee when they assume the duties of another employee that has resigned, at least until such time as a new replacement is hired. It would take an extensive amount of manual work to regularly capture and report these temporary adjustments.

Accountability measures

The fiscal accountability measures adopted by the Interim Higher Education Committee will require the annual disclosure of information on faculty and staff including: ratio of faculty and staff to students; faculty and staff turnover rates and major reasons; and faculty and staff salary levels, annual average salary increases, and comparisons with peer institutions.

Improving salaries

The Board of Higher Education and campuses have been making serious efforts to increase salaries beyond the amounts appropriated by the Legislature. The Legislature has encouraged this in its appropriation measures. The Board, in 1998, directed the campuses to reallocate an amount equal to five percent of their annual salary budget to salary increases over the period 1998-2004. To date, the campuses have reallocated a total of \$9.3 million towards their goal of \$10.0 million. This action demonstrates the Board and campus' commitment to improving salaries and to use all the tools available in order to attract and retain high quality faculty and staff. SB2040 provides another tool to accomplish this.

Therefore, we ask for your favorable consideration of this bill. I have asked Mr. Dave Clark of Bismarck State College to give you a campus perspective on this bill. Other campus personnel are here if you should have questions of them. Thank you for your consideration of this legislation.

W:\SB2040 testimony

BISMARCK STATE COLLEGE

1999-2000 Salary Guidelines

The legislative guidelines provide for a minimum salary increase of \$35 per month (assuming no job performance issues). An average increase of 2% was appropriated. As stated in Senate Bill 2015, Section 11, any increases greater than \$35 per month may not be given across-the-board and must be based on merit and equity. BSC will also receive an allocation of funds from the critical salary adjustment pool appropriated to the North Dakota University System. Based on these appropriations, salary increases will be allocated as follows:

1. **\$50 per month** - all permanent full-time employees will receive \$35 per month as stated in the legislative guidelines (assuming off probation and no job performance issues). An additional \$15 per month was given to all permanent full-time employees (assuming off probation and no job performance issues), totaling \$50 per month per employee. The \$15 comes from the internal reallocation of BSC funds to meet the goal in the NDUS Six Year Plan of increasing salaries by 5% over a six year period.
2. **Inequities** - 85% of the remaining salary increase dollars will be allocated using the staff and faculty recommended guidelines:

Staff

Compression
Degree and/or education
Gender
Internal inequities
Market and/or external inequities
Years of prior external experience
Years of internal service
Workload and responsibility changes

Faculty

Compression
Degree
Gender
Internal and External inequities
Market (based on 97-98 CUPA Faculty Salary Survey)
Years of experience

3. **Merit** - 15% of the remaining salary increase dollars -- require written justification and consideration of exemplary job performance. Merit will be allocated as a one time payment (in July 1999). No more than approximately 10% of the employees per year will receive a one time payment. There is no cap amount on the dollar amount of the one time payment for an employee (it can be different amounts). The supervisors will have to provide written justification for the recommended one time payment and written justification for the recommended salary amount. A one time payment will not be allowed for an employee without a current performance evaluation on file.
4. If a supervisor/manager does not complete their current performance evaluations for his/her employees, the supervisor/manager will receive a letter of reprimand and may not receive a salary increase. If this occurs a second year, the supervisor/manager will not receive a salary increase.

*June 30, 1999, will be used as the cutoff date for years of service.
Confidential/Salary Guidelines 1999-2000

Presentation to N.D. Senate Appropriations
Committee

By Bismarck State College

**Dave Clark, Vice President of Operations and Corporate
and Continuing Education**

Chairman Nething and members of the committee:

My name is Dave Clark and I am Vice President of Operations and Corporate and Continuing Education at Bismarck State College. I am here today to testify in support of Senate Bill 2040.

Senate Bill 2040 was a direct result of the Higher Education Funding Study. This funding study resulted in the Higher Education Roundtable Committee Report that developed recommendations for the NDUS and developed accountability measures and success indicators that correspond with expectations for the NDUS.

This bill would exclude the NDUS employees from reporting provisions regarding payment "irregularities" in the fiscal practices of NDUS institutions. Irregularity is considered to be the use of state funds to provide employer bonuses, cash incentive awards and temporary salary adjustments.

I would venture that all of the campuses within the NDUS have utilized salary administration practices that would qualify as an "irregularity" under this current statute. Especially the granting of temporary salary adjustments that typically occur when duties and responsibilities are temporarily assigned to individuals.

The roundtable report references that

- Campus leaders should be given more control and responsibility for their budgets.
- The State Board of Higher Education should develop procedures that grant flexibility in the use of resources as long as an institution meets or exceeds expectations established by the Board.
- To remove strong oversight and move from a means accountability system to an ends accountability system.

- Revise salary policies to encourage salary increases and other incentives based on outcomes.

The recommendation of the NDUS was to amend the statute relating to "fiscal irregularities" which removes additional reporting requirements and restrictions on performance-based compensation or other incentives. The Higher Education Committee subsequently approved this bill draft.

The NDUS believes that the utilization of cash incentive awards and temporary salary adjustments are viable tools in salary administration practices. They are options management needs to have available in the environment we work in today. Private industry, I'm sure would agree, and has been using outcome-based salary practices since free markets have come into existence.

The reporting task the current status requires is significant. This process adds administrative burden with little to no benefit. Large institutions will have a significant number of temporary salary adjustments associated with normal turnover. Bonus or cash incentive awards would be much fewer in number but still would be required to be tracked and reported under current statutes.

If the intent is to allow Higher Education to dedicate its limited resources at its most critical functions and meet the expectations established in the roundtable report, then please support the passage of Senate Bill 2040.