REPORT TO THE GOVERNOR

2012 Advisory Council on Workforce Development and Planning

Issues, Recommendations, and Actions

2012 Advisory Council on Workforce Development and Planning

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Report to the Governor

November 15, 2012

Introduction

This report memorializes the recommendations of the Advisory Council on Workforce Development and Planning (the "council") and subsequent actions taken by the Department of Administration (the "department") over the 2013 biennium. The council advises the department and the governor on strategic people management issues within Montana state government. The council meets its responsibility by:

- keeping abreast of people management issues, trends, and challenges;
- regularly reviewing statewide human resource policies, practices, and systems identified by the department, council members, and state HR managers; and
- recommending approaches that support the state's goal of becoming an employer of choice.

At the request of the Schweitzer administration, the advisory council was elevated from a task force in January 2012 under the statutory authority contained in Section 2-15-122, MCA. The order establishing the advisory council is included in this report as Attachment 1. Previous related biennial reports were produced by similar groups of policymakers under the titles of the *State Pay Task Force* and the *Workforce Planning Task Force*.

Another change during the 2013 biennium was the creation of a seven-member HR work group. Department of Administration Director Janet Kelly created the work group to provide fact-based options and recommendations to workforce problems identified by the council. Its role was to:

- attend advisory council meetings to become familiar with the council's discussion and concerns;
- address concerns by outlining issues and capturing the problem statements;
- develop options to address the council's issues;
- provide pros and cons to each option;
- reach consensus on recommendations;
- provide options and recommendations to workforce issues based on sound strategic HR practices that fully address issues raised; and
- communicate recommendations and outcomes to the HR community.

Issues, Recommendations, and Actions

The council considered six issues during the 2013 biennium. It reached its recommendations through a facilitated consensus process. Because the recommendations fell within the Department of Administration's policymaking authority, the department has or will implement each without requesting statutory changes.

1. Changes to the Workforce Development Initiative Framework

The first step in strategic planning is to define state government's long-term direction. In 2010, the Workforce Planning Task Force developed a document that outlined Montana state government's vision, goals, and objectives for becoming an employer of choice. This document became the framework for the state's workforce development initiative. Two years later, the Department of Administration asked the advisory council to add to this document a statement supporting the administration's interest in fostering and promoting workforce diversity.

Recommendation and Action: The council recommended adding the following goal and objectives in the vision statement:

> *" . . . GOAL 3: Agencies foster and promote diversity in the workforce and respect for individual differences by:*
>
> *(a) encouraging and training their workforces to understand and appreciate individual and cultural differences,*
> *(b) promoting ongoing communication among colleagues with a greater understanding and appreciation for individual and cultural difference, and*
> *(c) supporting the state's effort to attract, develop, and retain a talented, diverse, and inclusive workforce promoting a culture of individual dignity and respect . . . ."*

The department incorporated this goal into the document along with some minor style and grammatical changes. The revised document is included in this report as Attachment 2.

2. Employment Issues in Eastern Montana

New rock fracturing technology and high global oil prices caused an oil boom in the Bakken formation of the Williston Basin, underlying major parts of eastern Montana. The resulting population boom has strained government services including recruitment and retention of state workers from Miles City to Plentywood. The State of Montana employs about 800 workers in this area. State agencies employing workers in surrounding communities are also feeling effects of the increased labor demands.

In early 2012, the HR work group asked the council to consider quick measures to help state agencies respond to issues involving recruitment, retention, pay, morale, and housing.

Recommendation and Action: The council recommended two policy changes:

1) The department will implement the *Natural Resource Energy Development Impact Policy* once it's undergone the normal review process. The draft policy is included in this report under Attachment 3.

   The draft policy will provide guidelines and requirements for agencies that need to adjust compensation for hard-to-fill and/or retain positions located within areas of Montana impacted by natural resource energy development activities. It allows lump-sum compensation additives to offset the competitive pressure and higher costs of living, thus improving agencies' ability to attract and retain employees in these locations. These lump-sum payments will not be added to employees' base pay.

   Under the policy draft, employees' compensation may be modified through lump-sum adjustments for:

   a) housing allowances (for rental or home ownership);
   b) travel subsidies;
   c) signing incentives;
   d) retention incentives; and
   e) other contingencies approved by agency management.

2) The department implemented changes to *MOM Policy: Travel-Employee Travel, Section VII.C., In-State Travel – Lodging Reimbursement at Actual Cost*. The new policy is included in this report under Attachment 4. The changes allow employees to get reimbursed for their out-of-pocket costs for lodging when they travel to a city or town where there is no available lodging under the cap. The section identifies those circumstances when an employee can be paid for the actual cost of lodging that exceeds the cap.

3. Broadband classification plan methodology

Job classification is a system for objectively and accurately defining and evaluating the duties, responsibilities, tasks, and authority level of a job. Four primary methods of job evaluations are commonly used: job ranking, job classification, point factor, and factor comparison. The job classification method in Montana state government is based on job classes. Each job is placed into the job class where the evaluator finds the best fit.

The State of Montana enacted its first statewide classification and pay system in the 1970s. The broadband classification system replaced the original system in 2007. The two systems are similar in that the weight of the factors used as one of several considerations to evaluate the job remains the same: *The grade or band level of the position is determined largely by the complexity of the work and the skill required to perform the work.*

At some point in the first system's history, the department started using what's become known as the *predominant-duty rule.* The predominant-duty rule is found in the classification training manual. It is not state law, administrative rule, or policy.

Following are the relevant parts of the description for the predominant-duty rule from the classification manual:

> *. . . The predominant duty rule requires classifiers to identify at least 50 percent of the work, even if they have to combine duties. If the duties are a mixture of levels, the classifier must choose the lowest level of the hardest* [most complex] *work. The classifier must then compare the complexity of the work to factor level language, starting at level one, and then verify their choice with comparison to a benchmark… The classifier must identify the work performed 50 percent of the time or more . . . .*

While no one seems absolutely certain why or how the rule came about, it was likely implemented to aid classifiers. Most classification evaluators believe it is a necessary tool for classifying difficult jobs or those known as *mixed positions* (one job with unrelated duties from two or more occupations). The rule, according to some classification analysts, is easy to understand, explain, and defend. However, many managers believe the rule inhibits their ability to recruit and fairly compensate workers who possess these critical skills. The most important skills, they argue, should determine the band level regardless of the frequency in which those related duties are performed.

In 2011, Director Kelly asked the council to review the broadband classification plan methodology, including the "predominant-duty rule," compare it against industry standards, and recommend appropriate changes.

The HR work group studied the predominant-duty rule and concluded that a change in classification policy would have a ripple effect on other components of the classification system. It recommended the state evaluate the classification and compensation systems in their entirety to determine whether the two systems still serve the state's needs, particularly as they relate to Montana state government's ability to competitively recruit and retain a competent workforce. The group's vision, as it relates to these two systems, is that HR professionals can confidently explain the systems, employees can easily understand the systems, and the systems reflect the values of Montana state government's executive branch. The work group's suggested approach, along with issues it identified for future efforts, is included in this report as Attachment 5.

Recommendation and Action: The advisory council recommends that the successor council in the 2015 biennium identify the requirements it believes should be incorporated in the state's compensation and classification systems. Further, the successor HR work group should analyze the current systems to determine whether they reflect the requirements identified by the advisory council:

- If the current systems do not meet the identified requirements, the 2015 advisory council should conduct a study and recommend changes to the systems.
- If, on the other hand, the current systems do meet the identified requirement, the 2015 HR work group would create the training and education plans to help stakeholders better understand and use the current systems.

4. Improvements to the 2012 market analysis process

One of four issues Director Kelly asked the council to study during this biennium was the Department of Administration's market analysis process. According to Montana law, at 2-18-201 (1), MCA, *"[i]t is the intent of the legislature that compensation plans for state employees . . . be based, in part, on an analysis of the labor market as provided by the department in a biennial salary survey . . . ."*

Market analysis is the collection and analysis of salary data from other employers for similar jobs. The results of the market analysis are used to set pay for specific occupations based on the competitive labor market.

The department has conducted this analysis for over 30 years. Since the inception of the broadband pay plan, however, there has been growing interest and reliance on this analysis from both the executive and legislative branches. Stakeholders rely on this information to provide accurate, reliable, and valid measures of state government's overall competitiveness in the labor market.

In November 2006, the Legislative Audit Division (LAD) conducted a performance audit of the broadband pay plan with a primary focus on the market analysis process. It identified several areas where the process could be strengthened to improve the establishment of market pay. These included defining Montana's competitive labor market, developing guidelines to help ensure consistency throughout the market analysis process, and approving all market rates (see *Pay Plan 20: The State's Alternative Pay Plan,* November 2006; and the *Performance Audit Follow-up 08SP-19* dated September 2008).

At the same time the LAD conducted its audit, the Department of Administration asked state policymakers to review the process and recommend improvements. Their recommendations were consistent with the LAD's. In 2008, the State Pay Task Force recommended several changes to the department's surveying methodology. The department implemented these recommendations with the release of the 2008 and 2010 market analyses (see *State of Montana, 2008 Pay Task Force Report,* dated September 18, 2008).

Director Kelly's request to review the market analysis process came about because of the department's interest in continual improvement and because several lawmakers questioned the validity of the process during the 2011 regular legislative session. Director Kelly asked Barbara Wagner, Senior Economist of the Department of Labor and Industry's Research and Analysis Bureau, to review the department's biennial market analysis process with the objective of ensuring the calculated wage ranges accurately represented the median market wage for each occupation and skill level. Ms. Wagner's recommendations are included in this report as Attachment 6.

Ms. Wagner offered one specific suggestion to improve the analysis process. This suggestion relates to the manner in which the department estimates market pay for occupations within a series. As Ms. Wagner explains in her written analysis:

> *. . . As a hypothetical example, the average economist or analyst performs jobs at the Pay Band 6 level, so the median salary is placed into Pay Band 6. However, some economists have jobs that require more skill and responsibility, and some have jobs that require less. The current methodology assumes a slope of 20% of the established median to determine the midpoint salary for* [the same occupation classified in] *higher and lower pay bands.*

Recommendation and Action: The advisory council concurred with Ms. Wagner's suggestion to replace the 20 percent assumption with an occupation-specific slope based on the 25th and 75th percentiles given by the Montana OES (Occupational Employment Statistics) and produced by the U.S. Department of Labor. The department incorporated that recommendation into the 2012 market analysis.

5. Enterprise-wide performance management

A primary role of the advisory council is to build the framework for the executive branch's workforce development initiative by identifying enterprise-wide approaches and solutions to employee development and succession planning. The *Vision, Goals, and Objectives* (Attachment 2) serve as the framework. During the 2013 biennium, the advisory council concentrated its efforts on performance management.

Recommendation and Action: The council examined various approaches to implementing an enterprise-wide performance management system using mission-driven, realistic and measurable objectives and goals. Chief among its interests was tying individual performance plans to agencies' goals, ensuring the plans are quantitative and measurable, communicating expectations to employees, and supporting career planning.

The HR work group drafted a preliminary statement of philosophy and glossary of terms, including definitions for *performance management* and *talent management* to support a model statewide performance management guide. The group's recommendations are included in this report as Attachment 7.

The department will develop a guide to performance and talent management. The State HR Knowledge Portal is one of several tools designed to address recommendations from the advisory council. The division will use this web-based platform to develop the guide in a dynamic content. That piece of the knowledge portal will be developed in the 2015 biennium.

6. The issue of "internal equity"

The 2010 Workforce Planning Task Force asked that *internal equity* be reviewed every biennium. The term *internal equity* refers to employees' perception of their responsibilities, compensation, rewards, and work conditions compared to other employees in similar positions within the same state agency. In this case, the council's interest is monitoring base pay among executive branch agencies to make certain the flexibility of the broadband pay plan does not create or exacerbate problems of *interagency competitiveness.*

One broadband pay plan goal was to help state agencies remain responsive and competitive within the labor market in terms of competing with other employers to recruit and retain capable employees. Implementation of the broadband plan achieved the desired effect to some degree. Prior to the pay freeze in the 2011 biennium, agencies that had been able to adjust pay for certain state jobs under the broadband authority reported stronger applicant pools and better retention experiences. Frequently among the stronger applicants, however, were current state employees from other agencies who had a natural interest in higher pay. Thus, the flexibility one agency had to advertise a job with better pay sometimes became a retention concern for another agency that risked losing a good employee to the agency that could afford to pay the higher salary.

Recommendation and Action: The 2010 Workforce Planning Task Force recommended the department set the standard for monitoring issues of interagency competitiveness through these efforts:

(a) The department regularly conducts phone interviews to gather information on why employees transfer between agencies. Its findings are reported annually in the *State Employee Profile.*

In 2011, department staff spoke to 88 permanent employees who transferred between executive branch agencies. Respondents' reasons for transferring generally fell into one of two categories: *lack of advancement opportunities* or *problems with management*. Only a small percentage of respondents addressed pay when describing their reasons for transferring. Less than 10 percent of respondents indicated they transferred solely for higher pay, while about five percent of respondents indicated they transferred to lower-paying positions to escape difficult working conditions. *(See the 2012 State Employee Profile)*

(b) The department maintains an interagency tool in July 2010 to enable stakeholders to compare pay of state employees in the same occupations by different state agencies. The data is updated periodically. Agency managers and HR officers use this data to set pay for new hires and adjust pay for current employees, when funding allows.

The department analyzed the information contained in the interagency pay tool as of June 5, 2012. It included information for 10,845 employees and provided the following findings to the council:

- The average employee salary was 87% of the average 2012 market midpoint, and
- The Office of the Public Defender pays the lowest average salary (67%) compared to the 2012 market midpoints.

The council does not believe interagency recruitment and retention pressures have reached a point of agencies calling for a return to the "one-size-fits-all" pay approach. Nevertheless, the department and state agencies will continue to pay close attention to balancing the need for flexibility with the need of statewide consistency in pay determinations and methods.

Advisory Council on State Workforce Development and Planning

I, Janet R. Kelly, Director of the Montana Department of Administration, hereby establish the Advisory Council on State Workforce Development and Planning within the Department of Administration, effective January 24, 2012, in accordance with the provisions of §2-15-122, MCA. Members shall serve at the pleasure of the Governor in an advisory capacity in accordance with §2-15-122, MCA.

PURPOSE

The purpose of the Advisory Council on State Workforce Development and Planning is to advise the Department of Administration and Governor on strategic people management issues within state government. The council serves to regularly review and recommend people management approaches that support Montana state government's goal of becoming an employer of choice.

MEMBERSHIP

The Advisory Council on State Workforce Development and Planning is composed of 13 members, all of whom serve in policy-level positions (directors, deputy directors, and division administrators). The Department of Administration Director serves as the chair.

The names of the members are attached as Addendum A.

RESPONSIBILITIES

The Advisory Council on State Workforce Development and Planning will meet its responsibility to advise the Department and the Governor by:

1) Keeping abreast of people management issues, trends, and challenges;
2) Regularly reviewing statewide human resource policies, practices, and systems identified by the Department, council members, and state HR managers; and,
3) Recommending approaches that support the state's goal of becoming an employer of choice.

COMPENSATION

Advisory council members who are state or political subdivision employees shall not receive compensation, as provided in §2-15-122 (5), MCA. All members shall be entitled to

be reimbursed for travel expenses, as provided in §2-15-122 (5) and §§2-18-501 through 2-18-503, MCA.

DURATION

This Council shall exist until June 30, 2013.

APPROVAL

Submitted to the Governor for approval this 24th day of January 2012.

Janet R. Kelly, Director
Department of Administration

I, Brian Schweitzer, Governor of the State of Montana, pursuant to the authority vested in me by §2-15-122(9), MCA, do hereby approve the creation of the Advisory Council on State Workforce Development and Planning within the Department of Administration as requested by Janet R. Kelly, Director of the Department of Administration.

GIVEN under my hand and the
GREAT SEAL OF THE STATE OF MONTANA
this 24 day of January, 2012.

Brian Schweitzer, Governor

Accepted for filing by:

Office of the Secretary of State

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Advisory Council on Workforce Development and Planning

VISION, GOALS, and OBJECTIVES

Recognizing our workforce as a primary investment, Montana state government will accomplish a cultural change in managing people. Montana state government will be an employer of choice for these reasons:

Goal 1 - *Agencies align their human resource practices (recruitment, selection, development, and retention) with their individual missions.*

(a) Recruitment efforts emphasize the benefits of state employment:

- Marketing the importance of public service,
- Offering flexibility to balance work priorities with personal commitments,
- Offering training and opportunities to work with advanced technology, and
- Providing excellent health coverage, retirement benefits, and a generous leave package.

(b) Recruitment and selection processes are flexible and quick:

- Extending employment opportunities to all people,
- Sharing applicant information among agencies,
- Setting reasonable minimum qualification requirements, and
- Selecting applicants for jobs within four weeks of the application closing date.

(c) Succession plans identify and help prepare employees for career development:

- Offering on-the-job training opportunities to learn the role and responsibilities for managerial and non-managerial jobs, and
- Recognizing the unique talents, backgrounds, experiences, and contributions of employees, and developing them to reach their fullest potential.

(over please)

Council Members

Janet Kelly, Director and Advisory Council Chair
Administration

Tim Burton, Deputy
Justice

Dick Clark, CIO
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Mike Cooney, Administrator
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Lesa Evers, Acting Director
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(d) Agencies use a statewide performance management system:

- Promoting ongoing communication,
- Establishing individual performance objectives linked to agency goals,
- Recognizing good performers,
- Effectively addressing poor performers,
- Fostering environments to promote and support meaningful, long-term careers in state government, and
- Empowering and encouraging employees to explore different perspectives and discover new and innovative ways of doing business.

Goal 2 - *Agencies communicate efficiently and effectively with their workforces, citizens, and policy makers to ensure their goals are mission-driven, realistic, and tied to measureable objectives:*

(a) Linking individual performance plans to agency goals and work efforts, and
(b) Encouraging constructive feedback through the chain of command.

Goal 3 - *Agencies foster and promote diversity in the workforce and respect for individual differences:*

(a) Encouraging and training their workforces to understand and appreciate individual and cultural differences,
(b) Promoting ongoing communication among colleagues with a greater understanding and appreciation for individual and cultural differences, and
(c) Supporting the state's effort to attract, develop, and retain a talented, diverse, and inclusive workforce promoting a culture of individual dignity and respect.

Goal 4 - *Agencies foster, support, and promote a culture of continual improvement:*

(a) Regularly reviewing and recommending improvements to agencies' human resource systems and practices through an advisory council of executive branch policy makers, and
(b) Relying on objective measurements to evaluate the effectiveness of agencies' human resource systems and practices.

Montana Operations Manual ***Policy***	**Category**	Human Resources
	Effective Date	X
	Last Revised	X
Issuing Authority	Department of Administration – State Human Resources Division.	

Natural Resource Energy Development Impact Policy

I. Purpose

This policy provides guidelines and requirements for agencies implementing additions to compensation for hard-to-fill and/or -retain positions located within areas of the state impacted by natural resource energy development activities.

II. Scope

This policy covers all employees in Montana's executive branch except the Montana University System, the Montana State Fund, elected officials, personal staff of elected officials, and any other position specifically excluded under 2-18-103 and -104, MCA.

Agencies must follow the provisions of this policy unless they conflict with collective bargaining agreements, which will take precedence to the extent applicable.

III. General Requirements

A. Procedures

Each agency implementing this policy must design, implement, and administer written procedures regarding additions to compensation for areas impacted by natural resource energy development within the parameters of this policy. The agency's strategic mission, specific workforce challenges, desired outcome, and agency pay procedures should drive decisions regarding additional compensation.

Agency pay procedures must:

1. be fiscally responsible, actively managed, and consistently applied with the agency's mission and objectives;
2. identify procedures for implementing the various types of additional compensation needed by an agency as addressed in this policy; and
3. be filed with the Department of Administration.

Agency management must review the effectiveness of the agency's pay procedures under this policy at least annually.

B. Additional Compensation Considerations

1. Additions to compensation may be available to State of Montana employees who are employed in mission-essential, hard-to-fill job positions located within areas of the state affected by natural resource energy development activities.
2. Additional compensation considerations are intended to help offset the competitive pressure and higher costs of living within areas of the state affected by natural resource energy development activities and to improve an agency's ability to attract and retain employees. The additional compensation considerations are not designed to enhance an employee's current standard of living.
3. Consideration for additional compensation will be determined on a case-by-case basis.
4. The agency head or designee must approve all additions to compensation under this policy. Agency management shall properly document the type and reason for the additional compensation in the employee's personnel record. An employee's compensation may be modified through the lump-sum adjustment types described below:

    a. Housing Allowance (for rental or home ownership)
    b. Travel Subsidy
    c. Signing Incentive
    d. Retention Incentive
    e. Special contingencies may be used if approved by agency management.

5. Agency management shall properly document the type of additional compensation in the employee's HRIS record using SABHRS coding.

6. All additions to compensation are taxable and are to be included in the computation of overtime rates as required by IRS regulations.

C. Agency Implementation and Continuation Requirements

1. Agency management will establish internal procedures to administer additional compensation authorized by this policy. Agency management will review the effectiveness of its internal procedures at least annually and determine if the agency continues, revises, or discontinues its procedure.

2. Employees can request reconsideration if significant changes occur before their next annual revalidation. If agency management determines an employee or group of employees is no longer impacted, agency management can discontinue additional compensation authorized under this policy.

3. Continuation of additional compensation depends upon the availability of funding. Additional compensation amounts can change and/or be eliminated at any time without notice. It is recommended that a 30-day notice be provided if possible to an employee when an additional compensation agreement is changed or eliminated.

D. Additional Compensation Types and Administration Procedures

Agency management may provide additional compensation through the adjustment types described below:

1. **Housing-allowance payments** are intended to help offset the competitive pressure and higher cost of rental and purchased housing within areas of the state affected by natural resource economic development activities and to improve an Agency's ability to attract and retain employees.

    a. The employee population includes new and current employees.
    b. Agency management should use a process where an employee will provide to the agency documentation proving the inability to acquire and/or maintain affordable housing.
    c. Agency management must document the method used to determine the housing-allowance amount. Housing-allowance compensation is paid as a flat-dollar, lump-sum amount, not added to an employee's base pay rate.

2. **Travel subsidies** help to offset the cost of travel for employees who cannot find adequate, affordable housing within 50 one-way miles of the employee's assigned work location due to a shortage of available housing caused by the natural resource energy development activities.

    a. Employees who are unable to find adequate, affordable housing within 50 miles (one way) of their assigned workplace incur additional travel expenses, such as fuel, vehicle maintenance, etc. Travel subsidies provide a defined monthly lump-sum adjustment to eligible employees to assist with the additional transportation costs incurred.
    b. Agency management should use an application process to document the lack of adequate, affordable housing within 50 one-way miles of the employee's assigned workplace.
    c. Based on the distance traveled, agency management can determine a specific monthly travel subsidy to provide to an employee.
    d. At any point when an employee's travel status changes, the employee must notify agency management. Travel-subsidy payments can be modified or discontinued based on a travel-status change or at any time.

3. **Signing incentives** are a lump-sum payment option intended to entice an applicant to accept an employment offer in a competitive job market.

a. The signing incentive is useful when an agency wants to recruit a candidate when other employers may be competing for the same potential employee. A signing incentive is also useful to bridge the gap between the salary a candidate wants and the offer that is being made. The advantage of a signing incentive for the employer is that it is a one-time payment and not a recurring annual expense.
b. Agency procedures should require documentation indicating the benefit of recruiting the candidate when seeking approval for a signing incentive.
c. Signing incentives can be paid over a period of time, e.g., an initial amount paid at hire, another amount paid at six months, and a third amount paid at the completion of one year of employment. This process provides additional incentive for the employee to remain with the agency.

4. **Retention incentives** are lump-sum payments outside of an employee's regular salary offered as an incentive to keep an employee, particularly during a crucial business need.

   a. Customarily, retention incentives encourage employees to remain in a job for a defined period of time. Retention incentives are usually focused toward key employees whose lost knowledge and abilities may negatively impact the work environment.
   b. Agency procedures must require documentation indicating the benefit of retaining the employee when seeking approval for a retention incentive from agency management.
   c. Retention incentives can be a one-time amount or a series of payments made over a period of time, e.g., an initial amount paid immediately, another amount paid at a period of months later, and subsequent interval payments at defined time periods. Extension of payments encourages an employee to remain in the job.

5. **Special contingencies** may be considered as part of an agency's procedure if approved by agency management. Agency management is responsible for documenting and reporting any special contingencies implemented and providing the details of the contingencies to the Department of Administration. The agency shall properly document the type and rationale in the employee's personnel record.

IV. Definitions

All definitions under 2-18-101, MCA, apply to this policy. The following definitions also apply.

Lump Sum: Payment of a specific amount for a particular purpose that is not paid at an hourly rate and is not included as a portion of base pay. The lump-sum payment can be a single, one-time payment or multiple, specific payment amounts scheduled to be paid at specific time intervals.

V. References

1. Broadband Pay Policy
2. SABHRS Coding will be included as it becomes available.

VII. In-State Travel Guidelines

Section 2-18-501(1), MCA, establishes the meal allowances and lodging reimbursements for in-state travel.

In-State Travel – Lodging Reimbursement at Actual Cost (No Cap) (Revised July 17, 2012)

The agency director or designated approving authority may approve lodging reimbursement at actual cost, without applying the cap provided for in Section VII.B under the following circumstances:

1. Lodging below the cap is temporarily unavailable due to special functions such as fairs, sporting events, conventions or seasonal demand;
2. Emergency travel arrangements prevent finding accommodations below the cap;
3. Remote locations with limited accommodations within a 15-mile radius prevent finding accommodations below the cap;
4. A shortage of available lodging below the cap;
5. An employee in a regulatory or undercover function has reasonable cause to believe there is risk to his/her personal safety if identified as a State employee.

The employee must provide adequate justification, along with the original lodging receipt, to the director or designated approving authority. The justification should also indicate that reimbursement at actual cost is within the agency's appropriation level. An example of the documentation is included in Attachment A of these policies.

HR Work Group Classification and Compensation Problem Statement

Vision

Montana state government has classification and compensation systems HR professionals can confidently explain, employees can easily understand, and reflects the values of Montana state government's executive branch.

Issues

- Many employees struggle understanding the relationship between compensation and classification in the current system. It can be difficult to explain and time consuming to defend.

- HR professionals find it challenging to create a future focused pay philosophy broad enough to encompass the entire pay structure. i.e. because the agencies rely on legislative approval for funding two years at a time, it is difficult to create a pay philosophy that allows the flexibility needed to accommodate the variety of potential situations.

- The current system used to determine funding and the source of funding available to agencies creates significant differences in pay between agencies.

- The HR work group questions if the current classification system is compatible with the missions, goals, and objectives of the executive branch.

- HR staff time and FTE allocation are currently centered on classification rather than compensation, yet the majority of employee concerns are related to pay. The advisory council may want to consider shifting the focus from classification to compensation.

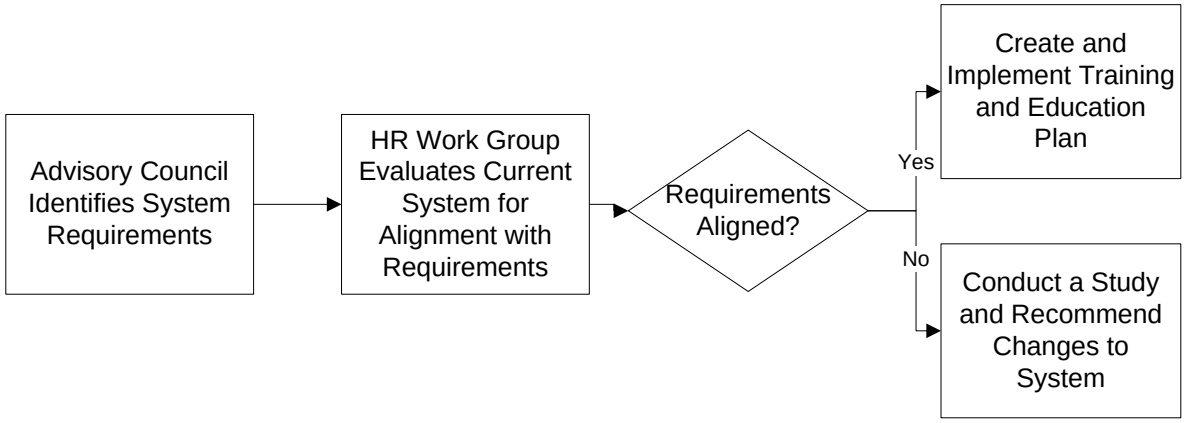
- The current compensation and classification systems do not have built-in measuring and monitoring processes. Changes to the systems should include measuring and monitoring processes that will provide important information regarding the overall health of the systems including effectiveness of the two systems.

Suggested Approach

The advisory council should identify the requirements they believe should be incorporated in the compensation and classification systems.

The HR work group should analyze the current system to determine whether it reflects the requirements identified by the advisory council. If the current system does not meet the identified requirements, the advisory council should conduct a study and recommend changes to the system. If the current system does meet the identified requirements, the HR work group should create training and education plans to help stakeholders better understand and use the current system.

Decision Tree



MEMORANDUM

TO: Bonnie Shoemaker, Carol Schopfer, Dept. of Administration
FROM: Barb Wagner, Senior Economist, Dept. of Labor and Industry
DATE: November 28, 2011
SUBJECT: Review of Market Analysis Process

The Department of Administration asked for a review of the market analysis process used to determine the market rates for state jobs and recommendations for improvement, with the goal of ensuring that the calculated wage ranges accurately represent the average market wage rate for each occupation and skill level. To quickly summarize the market analysis process, regional data from three sources – the Occupational Employment Statistics (OES), the Central States Compensation Association (CSCA), and Salary.com – is utilized to determine the median wage for each occupation. The median wage is placed into the appropriate band within the occupation based on a review of the job duties. The suggested wage for higher and lower bands is determined by scaling the median wage up or down by 20%. The suggested wages are presented to managers and human resource professionals as ranges, with the suggested salary in the middle of that range and broader ranges for more advanced pay bands. **After reviewing this process, I have four comments, with only one including a specific suggestion to improve the market analysis process.** The remaining comments are intended to enhance understanding of the data and of how the market analysis process differs from the workings of a competitive labor market.

1. In a competitive labor market, wage rates are based on the productivity of the worker. In fact, economic theory indicates that a worker's pay is equal to the amount of value added to the company by their work. More productive workers earn more because they add greater value to the employer.

   Hiring decisions, and the starting salaries of workers, are not based on productivity because the company does not have personal knowledge of the worker's productivity levels. Instead, hiring salaries are based on signals of potential productivity, such as education, experience, and recommendations, that essentially place the worker's salary at the average productivity (and wage) of workers with similar characteristics. After hire, the hiring wage is then adjusted for actual productivity through the use of bonuses, promotions, and other compensation to reward top performers.

   The market analysis process is focused solely on determining the appropriate hiring wage, or on finding the appropriate average wage of a group of workers with similar signals and characteristics. Yet, basing wages on signals and group averages, will not reflect a competitive market wage for a individual worker because it is not based on the worker's actual observed productivity. **This comment is not a suggestion to alter the market analysis process, but is intended to highlight the difference between a competitive, market-determined wage and the hiring wage estimate determined by the market analysis process.**

2. The market analysis uses data from three different sources – the OES, the CSCA, and Salary.com. As actual data from other state governments, the CSCA represents the best

source of data from other competing state governments. The OES data has the broadest survey of the three data sources, including employers from federal, state, and local government, as well as the private sector. Because of this broadness and because of the large sample size, the OES likely provides the most accurate and stable estimates. In fact, Salary.com uses the OES as a "reality check" for its estimates (according to their website). However, the OES sample includes three years of data. While the data is aged by the Employment Cost Index, the OES may not capture rapid or recent changes in wages. The addition of Salary.com data should resolve any information delays in the OES data. These data sources seem appropriate and well-suited to the market analysis survey, with the weaknesses in one information source addressed by the strengths in the other sources. **No changes to the data sources are suggested.**

3. The pay rate for each occupation is chosen from the median rate of ten or more data points from the three data sources for Montana and the surrounding states. While Montana competes with the surrounding states for workers, the wage offered by the other state would have to be substantially higher than the wage offered in Montana in order to compensate the worker for the cost involved in moving to another state. In fact, moving and job search costs suggest that the primary competition for state workers comes from Montana employers, rather than from employers in other states. The equal treatment of data points regardless of geography does not address the additional costs of moving, and suggests that employers in surrounding states compete equally with Montana employers. **If the goal is to generate a hiring salary that adequately competes in the job decisions faced by a current Montana resident, a weighting mechanism giving greater weight to the Montana data points would likely result in a more competitive estimate. However, if the goal is to attract workers from other states, the hiring rate would need to be above the market rate in the competing state in order to compensate the worker for moving costs.** Because Montana wages tend to be slightly lower than the average wages in surrounding states, weighting the Montana data points would likely reduce the median wage rate selected by the market analysis, although the impact would vary by occupation. Including a margin of moving costs from other states would, of course, result in a higher estimate of the market hiring rate.

4. Once the median rate is selected, it is placed into the appropriate pay band based on the usual job duties and responsibilities required of the job. As a hypothetical example, the average economist or analyst performs jobs at the Pay Band 6 level, so the median salary is placed into Pay Band 6. However, some economists have jobs that require more skill and responsibility, and some have jobs that require less. The current methodology assumes a slope of 20% of the established median to determine the midpoint salary for higher and lower pay bands.

   Based on data from the 2010 OES, the 20% underestimates the actual difference between skill levels within each occupation. For all occupations, the slope between the median and the 25th percentile (reflecting those with less skill and experience) was about 31%, while the slope between the median and the 75th percentile (reflecting those with advanced skills and experience) was 52%. Using a 20% slope when the actual difference in wages is much greater would compress the wage structure, resulting in higher than

actual market wages for lower skill workers and lower than actual market wages for those with advanced skills. Based on previous analysis[1], state government pays higher wages than the private sector for occupations requiring lower education and skill levels. However, for occupations requiring an education above a college degree, private sector wages are much higher than the wages paid by state government. Using the 20% slope between the different skill levels within each occupation when the actual slope is greater likely contributes to this problem and potentially causes difficulties in retaining experienced workers.

I recommend that the 20% assumption be replaced by an occupation-specific slope based on the 25th and 75th percentiles given by the Montana OES to best represent the actual wage spread in the Montana labor market. Another possibility would be to replace the 20% slope with the distribution of the 25th and 75th percentile from the combined data points from the OES, Salary.com, and CSCA data. The overall impact of this change would likely increase the wage spread between pay bands (or an increased slope), although the impact would vary by occupation. DOA analysts may wish to investigate the impact and ease of use of different data sources and different methodologies if this suggestion is implemented.

[1] Research and Analysis Bureau, Montana Department of Labor and Industry. Primary author Barbara Wagner. "Facts about Private and Government Employment and Wages" January 2011. Available at http://www.ourfactsyourfuture.org/admin/uploadedPublications/4216_state_pay_report.pdf.

Performance Management

Recommendations of the Workforce Development Task Force (excerpt)

December 2010

Retention

The task force recommends a three-part approach:

- Department of Administration should develop a statewide policy outlining minimum standards for performance management (see below)
- Department of Administration should develop a Best Practice Guide for performance management. The guide should provide common definitions, process, and practices for designing, implementing, and maintaining performance management in state government.
- Department of Administration should develop a comprehensive training program for all levels of the organization.

The purpose of employee performance management is to ensure an agency or other employing entity effectively progresses toward achieving its stated goals and objectives. Performance management includes engaging, motivating, developing, and promoting employees. Engaged employees will know the organization's goals and understand how their work contributes to the goals of their work unit, bureau, division, and agency. The agency's mission and vision of how it improves lives for the citizens of Montana will motivate employees to achieve those goals. Effective agencies will emphasize a cycle of continuous improvement, including a strong focus on developing and promoting employees.

The minimum requirements for effective performance management should include the following items:

- Clearly stated vision, mission, goals, and objectives for the agency or employer.
- A hierarchical subset of the agency or employer's goals and objectives for each unit within the agency, such as divisions, bureaus, and work units.
- Specific goals with measurable objectives for each employee in a work unit that tie explicitly to the work unit.
- Employee development plans focused on the agency's current and future needs (succession planning) and the effective use of the employee's strengths.
- Evaluation of employee competencies, including employee behaviors.

- The requirements include a minimum schedule for completing performance evaluations, such as at least once a year.

Vision, Goals, and Objectives (excerpt)
October 2011

GOAL 1: Agencies align their human resource practices (recruitment, selection, development, and retention) with their individual missions.

…

(d) Agencies use a statewide performance management system:

- Promoting ongoing communication,
- Establishing individual performance objectives linked to agency goals,
- Recognizing good performers,
- Effectively addressing poor performers,
- Fostering environments to promote and support meaningful, long-term careers in state government, and
- Empowering and encouraging employees to explore different perspectives and discover new and innovative ways of doing business.

GOAL 2: Agencies communicate efficiently and effectively with their workforces, citizens, and policy makers to ensure their goals are mission-driven, realistic, and tied to measurable objectives:

(a) Linking individual performance plans to agency goals and work efforts, and

(b) Encouraging constructive feedback through the chain of command.