

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1989

H

4

HOUSE BILL 73*
Committee Substitute Favorable 4/21/89
Third Edition Engrossed 4/26/89
State Personnel Senate Committee Substitute Adopted 6/22/89

Short Title: Performance-based Pay System.

(Public)

Sponsors:

Referred to:

January 24, 1989

A BILL TO BE ENTITLED

AN ACT TO REVISE THE PERFORMANCE PAY SYSTEM IN EFFECT FOR STATE EMPLOYEES SUBJECT TO THE PROVISIONS OF CHAPTER 126 OF THE GENERAL STATUTES.

The General Assembly of North Carolina enacts:

Section 1. G.S. 126-7 reads as rewritten:

~~"§ 126 ♦ It shall be considered a part of the personnel policy of this State that salary increases as provided in the compensation plan shall be granted in accordance with a standard of efficiency as established by the State Personnel Commission. Each employee whose salary is at or below the third step of the salary range established for the class to which the position is assigned shall be granted a salary increase in an amount corresponding to the increments between steps of the applicable salary range at least once each year if the individual's performance merits the increase. Prior to July 1 of each biennium, each agency, board, commission, department, or institution of State government subject to the provisions of this Article shall file with the State Personnel Director a written description of the plan or method it is currently following in awarding or allocating efficiency or merit salary increments. At the same time, each such agency, board, commission, department, or institution shall cause a copy thereof to be distributed to each employee. The State~~

1 ~~Personnel Director, with the approval of the State Personnel~~
2 ~~Commission, shall modify, alter or disapprove any such plan submitted~~
3 ~~to him which he deems not to be in accordance with the provisions of this~~
4 ~~Article. Within the limit of available funds, each employee meeting~~
5 ~~higher standards may be granted increases up to but not exceeding the~~
6 ~~maximum of the salary range established for the class to which his~~
7 ~~position is assigned. If, in addition to the salary ranges, the State~~
8 ~~Personnel Commission shall establish uniform provisions for a system of~~
9 ~~payments over and above the standard salary ranges on the basis of~~
10 ~~longevity in service, that plan of payments shall not be considered in~~
11 ~~applying this policy governing annual salary increments. The head of~~
12 ~~each department, bureau, agency, or commission, when making his~~
13 ~~budget request for the ensuing biennium, shall anticipate the funds~~
14 ~~which will be required during the biennium for the purpose of paying~~
15 ~~salary increments and shall include those amounts in his budget request.~~
16 ~~In no case shall the amount estimated for annual increments above the~~
17 ~~third step of the range exceed two thirds of the sum which would be~~
18 ~~required to grant increments to all the personnel of the agency then~~
19 ~~receiving or who will receive a salary equal to or above the third step of~~
20 ~~the salary range. With the approval of the State Personnel Commission,~~
21 ~~State departments, bureaus, agencies, or commissions with 25 or less~~
22 ~~employees subject to the provisions of this Chapter may exceed the two-~~
23 ~~thirds restrictions herein provided.~~

24 **§ 126-7. Compensation of State employees.**

25 (a) It is the policy of the State to compensate its employees at a level sufficient to
26 encourage excellence of performance and to maintain the labor market competitiveness
27 necessary to recruit and retain a competent work force. To this end, salary increases to
28 State employees shall be based, in part, on each individual employee's job performance
29 and, in part, on general increases given to all State employees.

30 (b) To guide the Governor and the General Assembly in making appropriations
31 to further the compensation policy of the State, the State Personnel Commission shall
32 conduct annual compensation surveys. The Commission shall determine the percent of
33 funds appropriated for salary increases to be reserved for a general increase for all State
34 employees and the percent to be reserved for performance-based increases for eligible
35 employees. The Commission shall present its recommendation on the percentages and
36 the results of the compensation survey to the Appropriations Committees of the House
37 and Senate no later than two weeks after the convening of the legislature in odd years
38 and May 1st of even years. The amount reserved for performance increases shall not be
39 less than twenty-five percent (25%) nor more than seventy-five percent (75%) of the
40 total allocation.

41 (c) Performance increases shall be based on performance appraisals of all
42 employees conducted by each department, agency, and institution. The State Personnel
43 Commission, under the authority of G.S.126-4(8), shall adopt policy and regulations for
44 performance appraisal. The policy and regulations shall include the following:

- 1 (1) The performance appraisal system of each department, agency, or
2 institution shall be designed and administered to ensure that
3 performance increases are distributed fairly and reward only
4 performance that exceeds performance requirements.
- 5 (2) To be eligible to distribute its share of the performance increase
6 allocation, a department, agency, or institution shall have an operative
7 performance appraisal system which has been approved by the State
8 Personnel Director. The performance appraisal system adopted shall
9 use a rating scale of at least five levels, with the top three levels
10 qualifying for performance increases, and shall adhere to modern
11 personnel management techniques and practices in common use in the
12 public and private sectors. Departments, agencies, and institutions
13 with existing performance appraisal systems which use a rating scale
14 which is not consistent with the five-level system described above
15 shall have until July 1, 1991, to bring their systems into compliance
16 with this subsection.
- 17 (3) The State Personnel Director shall help departments, agencies, and
18 institutions to establish and administer their performance appraisal
19 systems and shall provide initial and ongoing training in performance
20 appraisal and performance system administration.
- 21 (4) An employee whose performance exceeds performance requirements
22 shall receive a performance increase unless the employee's supervisor
23 justifies in writing the decision not to award the performance increase.
24 An employee whose performance does not exceed performance
25 requirements shall not receive a performance increase.
- 26 (5) The State Personnel Director shall set the performance increase ranges
27 allowable for levels of performance that exceed performance
28 requirements. Absent the supervisor's written justification, an
29 employee whose performance exceeds expectations shall receive a
30 percentage increase equal to the midrange value for his rating level.
31 With the supervisor's written justification, an individual employee's
32 increase may vary above or below the midrange value within the
33 allowable range. A supervisor's performance appraisal plan,
34 evaluation standards for each employee, and individual employee
35 ratings and recommended performance increase amounts, with
36 justification, shall be reviewed and approved by that supervisor's next
37 higher level supervisor.
- 38 (6) The State Personnel Director may suspend any performance increase
39 that does not appear to meet the intent of the provisions of the
40 performance pay system and require the originating department,
41 agency, or institution to reconsider or justify the increase.
- 42 (7) An employee who disputes the fairness of his performance evaluation
43 or the sufficiency of the increase awarded or who believes that he was
44 unfairly denied a performance increase shall first discuss the problem

1 with his supervisor. Appeals of the supervisor's decision shall be made
2 only to the grievance committee or internal performance review board
3 of the department, agency, or institution which shall make a
4 recommendation to the head of the department, agency, or institution
5 for final decision. The State Personnel Director shall help a
6 department, agency, or institution establish an internal performance
7 review board or, if it includes employee members, to use its existing
8 grievance committee to hear performance pay disputes.
9 Notwithstanding G.S. 150B-2(2) and G.S. 126-22, 126-25, and 126-
10 34, performance pay disputes, including disputes about individual
11 performance appraisals, shall not be considered contested case issues.

12 (8) The State Personnel Director shall monitor the performance appraisal
13 system and performance increase distribution of each employing unit
14 within each department, agency, and institution. Each department,
15 agency, and institution shall submit to the Director annual reports
16 which shall include data on the demographics of performance ratings,
17 the frequency of evaluations, the performance pay increases awarded,
18 and the implementation schedule for performance pay increases. The
19 Director shall analyze the data to ensure that performance increases are
20 distributed fairly within each department, agency, and institution and
21 across all departments, agencies, and institutions of State government
22 and shall report back to each department, agency, and institution on its
23 appraisal and distribution performance.

24 (9) The State Personnel Director shall report annually on the performance
25 pay program to the Commission. The report shall evaluate the
26 performance of each department, agency, and institution in the
27 administration of its appraisal system and the distribution of
28 performance increases within each department, agency, and institution
29 and across State government. The report shall include
30 recommendations for improving the performance appraisal system and
31 alleviating inequities. Copies of the report shall be sent to the State
32 Auditor.

33 (10) The Commission shall report annually to the Governor, the Lieutenant
34 Governor, the President Pro Tempore of the Senate, the Speaker of the
35 House of Representatives, and the Standing Personnel Committees of
36 the House and the Senate. The Commission report shall include an
37 evaluation of the administration of the appraisal system and
38 distribution of performance increases by each department, agency, and
39 institution. The State Personnel Director shall recommend to the
40 General Assembly for its approval sanctions to be levied against
41 departments, agencies, and institutions that have deficient appraisal
42 systems or that do not link performance increases to performance.
43 These sanctions may include withholding performance increases from

1 the managers and supervisors of individual employing units of
2 departments, agencies, and institutions in which discrepancies exist.

3 (d) The provisions of subsections (a), (b), and (c) shall not affect the system of
4 longevity payments established by the State Personnel Commission.

5 (e) Nothing in this section shall require or authorize any department, agency, or
6 institution to establish a limitation on the number or percentage of employees who are
7 eligible under this section to receive performance increases."

8 Sec. 2. This act shall become effective July 1, 1989.