

Background

SUMMARY

The state of Minnesota executive branch agencies employ about 50,000 workers in 2,200 jobs. State employment has grown quite slowly over the last 19 years and the payroll per employee adjusted for inflation was almost unchanged during this period. The process by which state employee compensation is determined rests on merit-system principles and the collective bargaining process. State compensation policy directs the Department of Employee Relations to achieve a pattern of compensation which is internally consistent and competitive in the larger economy.

In order to provide a context for our study of state employee compensation, this chapter asks:

- **How many employees work for the state? How are they divided among the major divisions of state government? What are the most populous job classes? How has state employment changed since 1980?**
- **How is the human resources function organized in Minnesota state government?**
- **What is the process by which employee compensation is determined? What are the state's compensation policies?**

CHARACTERISTICS OF STATE EMPLOYMENT

As of December 1999, 49,853 people were employed in executive branch state agencies including the Minnesota State Colleges and Universities system (MnSCU).¹ Our study of state employee compensation is restricted to executive branch employment; over 96 percent of state employees work in executive branch

¹ This count also includes employees of the Minnesota State Retirement System, the Public Employee Retirement Association, and the Teachers Retirement Association. This count includes active employees and those on paid or unpaid leave. University of Minnesota employees are not included in this total and are not covered by this report.

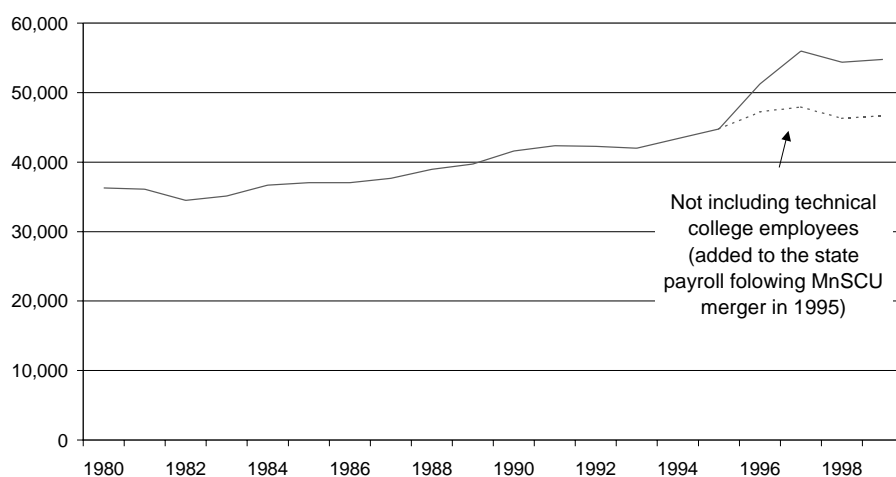
agencies.² The non-executive branch state employees are distributed as follows: Approximately 860 employees (including temporary employees) work in the legislative branch and 1,250 state employees work in the judicial branch.³

A look at the trend in state employment shows:

- **State employment has grown slowly over the last 19 years.**

Figure 1.1 shows how the number of state employees has changed between 1980 and 1999. The figure shows a dip in state employment around 1982, a time of recession and state budget cuts. From this point state employment grew relatively slowly until 1995, when the community and technical colleges became part of MnSCU and the state annexed a group of about 8,000 technical college employees that had been previously counted as local school district employees. Figure 1.1 shows the trend line with and without the addition of these employees. Between 1980 and 1999 state employment grew 51 percent, but only 29 percent not counting the additional technical college employees. As a point of reference, the state's population grew 17 percent between 1980 and 1998.

Figure 1.1: Number of Minnesota State Employees (Total Appointments), 1980-99



NOTE: This figure is based on total appointments. A small percentage of employees holds more than one job.

SOURCE: Minnesota Department of Employee Relations.

² Statistics on state employee compensation come from data systems used by the departments of Employee Relations and Finance; they do not generally cover employees outside the executive branch. However, a few hundred employees of the Office of the Legislative Auditor and the retirement association employees mentioned in the previous footnote are included in the state's payroll system (SEMA4), and are included in some tables in this report.

³ As of March 1999, approximately 264 permanent and 91 temporary employees worked for the House of Representatives and 230 permanent and 94 temporary employees worked for the Senate. About 47 additional legislative employees worked for the Legislative Coordinating Commission and 48 permanent full-time and 15 part-time and session employees worked for the Office of the Revisor of Statutes.

We also found:

- **The state's payroll adjusted for inflation grew slowly between 1980 and 1998. The payroll per employee adjusted for inflation was almost unchanged during the same period.**

The state's payroll grew from \$580 million in 1980 to \$1.73 billion in 1998, a growth rate of nearly 200 percent over the period. Figure 1.2 shows payroll growth over the period in current dollars and in 1980 dollars. In 1980 dollars, the state's payroll grew by 51 percent over the same period.

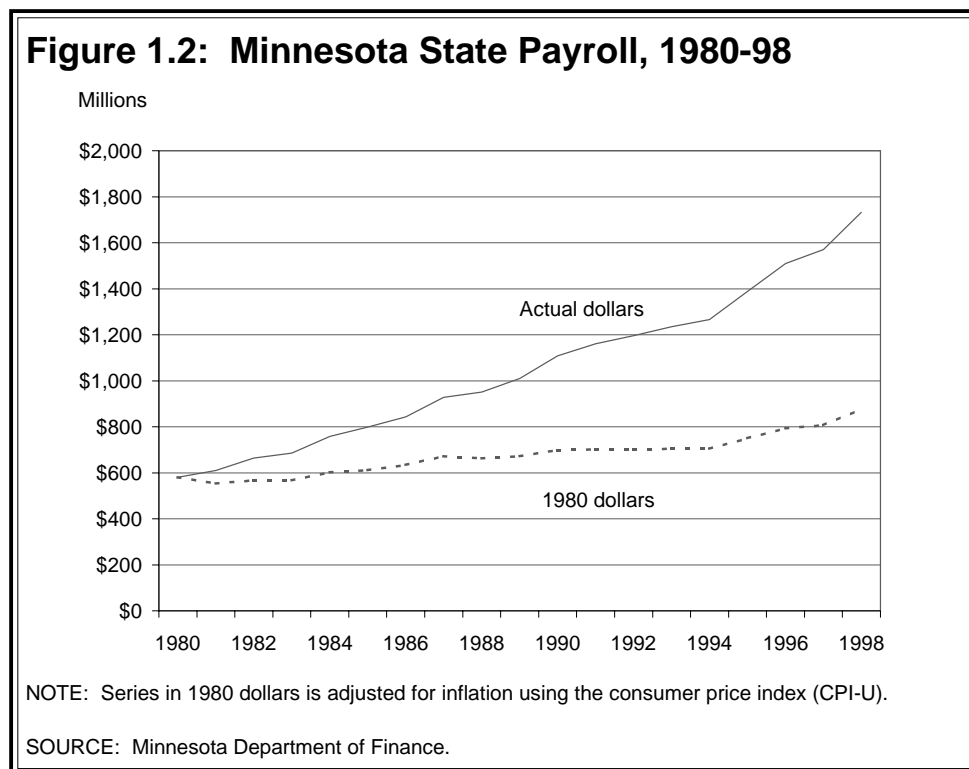


Figure 1.3 shows the growth of the payroll per state government employee in Minnesota compared to the national average for state governments. The payroll per employee adjusted for inflation has grown very little (less than 1 percent) between 1980 and 1998. This trend is roughly in line with the national average.⁴

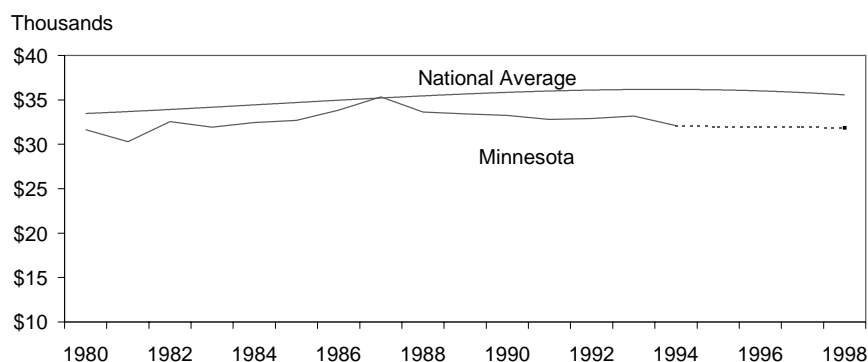
Although most state agencies are headquartered in the Twin Cities area, state employees are widely distributed across Minnesota. State employees work in all but three counties, and about 47 percent of state employees work outside the seven-county metro area.⁵ In the next chapter we examine the question of how state employee compensation, and employee compensation in general, varies across Minnesota.

⁴ Figure 1.3 is presented to compare rates of change and should not be interpreted to mean that state of Minnesota pay is lower than the national average. The national data is calculated per full-time equivalent employee and the Minnesota data is calculated per employee. Data presented in the next chapter show that Minnesota pay is higher than the national average.

⁵ The three counties, according to DOER statistics, are Lincoln, Norman, and Red Lake.

State payroll per employee adjusted for inflation has changed little in Minnesota and the nation between 1980 and 1998.

Figure 1.3: Payroll per State Government Employee, National Average and Minnesota, 1980-98



NOTE: Both series are adjusted for inflation using the consumer price index (CPI-U; adjusted to 1998 dollars). 1995-97 data for Minnesota are imputed due to payroll system changes. National average is payroll divided by the number of full-time equivalents while Minnesota's payroll is divided by the number of employees (full- and part-time).

SOURCE: Legislative Auditor's Office analysis of U.S. Bureau of Census data (Census of Governments) and data provided by the Minnesota Departments of Employee Relations and Finance.

Nine departments of state government employ at least 1,000 workers. As Table 1.1 shows, these are (in order of decreasing size): MnSCU, Human Services, Transportation, Corrections, Natural Resources, Public Safety, Economic Security, Health, and Revenue. Table 1.1 also shows the number of full-time permanent employees in each agency. In some cases, agencies employ a large number of part-time or temporary workers. Each of the state departments at the top of the list is a large employer in its own right. By comparison, only 2 percent of private firms in Minnesota employ 500 or more workers.⁶ Maintaining a rational, proportional pay structure is difficult in a large, diverse employer. Later in this chapter we describe how this problem is addressed in Minnesota.

State government is not only a large employer, it employs a highly diverse workforce. The state employs people in over 2,200 separate job classifications. The Department of Employee Relations (DOER) has grouped these job classes into broader categories called "career families." Table 1.2 shows the number of employees in the 14 largest career families. The largest category is the faculty of the four-year and two-year colleges in the MnSCU system. The second largest category is Office Administration careers, mainly composed of office clerical workers. The third largest class is Human Services/Development, which consists of jobs such as human services technician that are involved in counseling, administrative, and therapeutic roles in state treatment centers.⁷ Appendix A presents a list of job classes within each career family.

⁶ U.S. Small Business Administration, Office of Advocacy, based on data provided by the U. S. Department of Commerce, Bureau of the Census.

⁷ Further descriptions of these career families are presented on DOER's web page: <http://www.doer.state.mn.us/stf-bltn/Famlydef.htm>.

Table 1.1: Employees by Executive Branch Agency, 1999

<u>Agency or Department</u>	<u>Full-Time Employees</u>	<u>All Employees</u>
MnSCU	8,531	15,352
Human Services	4,505	6,725
Transportation	4,803	5,560
Corrections	3,373	3,586
Natural Resources	1,950	2,995
Public Safety	1,764	1,928
Economic Security	1,673	1,893
Health	1,076	1,306
Revenue	1,018	1,220
Administration	832	921
Pollution Control	730	847
Agriculture	378	551
Children, Families & Learning	415	522
Attorney General	412	485
Labor and Industry	357	389
Military Affairs	245	324
Employee Relations	173	306
Minnesota Zoo	146	304
Commerce	225	261
Trade and Economic Development	156	253
Lottery	196	208
Finance	168	178
Housing Finance	164	172
State Auditor	115	140
Public Service	111	118
Planning	54	91
Governor's Office	3	85
Secretary of State	63	77
Environmental Assistance	55	72
Human Rights	45	64
Veterans Affairs	33	37
State Treasurer	11	13
All Other Departments ^a	<u>1,448</u>	<u>2,366</u>
Total All Agencies	35,228	49,349

NOTE: Data are from July 1999.

^a"All Other Departments" includes 54 boards, councils, task forces, and commissions.

SOURCE: Minnesota Department of Employee Relations.

Nine state departments each employ at least 1,000 workers.

The rate at which various job categories are growing is a point of some interest. Although it has been difficult to assemble data showing changes in employment because of changing definitions of job classes and career families, we have been able to put together some data. Table 1.3 shows the growth of the larger "job families." "Job Family" is an occupational category used by the Department of

Table 1.2: Largest Career Families, 1999

Career Family	Number of Employees
MnSCU Faculty ^a	8,577
Office Administration	7,272
Human Services and Development	3,619
Facilities Operation and Maintenance	2,345
Corrections	2,174
Medical, Dental, and Nursing	1,960
Information Technology	1,865
Transportation Operations and Regulation	1,798
Engineering, Architecture, and Appraisal	1,772
Natural Resource and Environmental	1,762
Planning, Research, and Analysis	1,488
Education and Teaching	1,407
Protective Service	1,380
Accounting, Auditing, and Financial	1,367
Number of Employees Represented	38,786
Percentage of Total Number of State Employees	73.5%

NOTE: Data are from September 1999.

^a MnSCU Faculty come from the career family "Undesignated/All Other Careers."

SOURCE: Minnesota Department of Employee Relations.

**The state
employs a
diverse
workforce.**

Employee Relations (DOER) between 1985 and 1998, not to be confused with the "career families" shown in Table 1.2 that are currently in use.⁸

Among the fastest growing job families is Higher Education Program careers. This category excludes faculty jobs, but includes a wide variety of other jobs at MnSCU campuses and reflects, in part, the 1995 addition of technical college employees. This category grew by 385 percent. Other fast growing categories are: Organizational/Management Analysis jobs which grew 293 percent; Information Technology jobs which grew by 243 percent; and Corrections jobs which grew 94 percent. On the other end of the spectrum, the following categories declined in the number of jobs between 1985 and 1998: Laborers declined by 61 percent, Jobs and Training jobs by 29 percent, and Human Services and Nursing Home jobs by 19 percent.

It is interesting to note that despite growth in the use of electronic data processing in state government, and despite rapid growth in information technology careers, the Clerical General category, the second largest job category in state government, grew 15 percent between 1985 and 1998 to a total of 6,171 jobs. At least so far, computers do not seem to have replaced many clerical staff in state government.

⁸ This table includes all job families with 400 or more employees at either the start or the end of the 1985-98 period.

Table 1.3: Job Family Growth, 1985-98^a

Job Family	Number of Employees		Percent Change
	1985	1998	
Higher Education Programs	262	1,271	385.1%
Organizational/Management Analysis	178	699	292.7
Income Maintenance, Medical Assistance and Regulation	204	732	258.8
Information Systems	442	1,515	242.8
Environmental Management and Preservation	300	636	112.0
Corrections Programs	1,170	2,281	95.0
Revenue Collection, Gaming Promotion and Regulation	467	738	58.0
Planning, Research, and Grants	498	784	57.4
Law	333	515	54.7
Personnel	360	544	51.1
Nursing	1,111	1,618	45.6
Accounting, Auditing, Fiscal Management	1,034	1,394	34.8
Natural Resource Programs	1,187	1,511	27.3
General Management Assistance	611	743	21.6
Buildings and Grounds Operation	1,361	1,598	17.4
General Clerical	5,373	6,171	14.9
Law Enforcement, Security, and Related	944	1,036	9.8
Vocational Rehabilitation Programs	433	452	4.4
Building Maintenance	839	871	3.8
Engineering	1,816	1,869	2.9
Highway Maintenance	1,600	1,607	.4
Nutrition, Clothing, Household Management	592	555	-6.3
Human Services Nursing Home Residential Programs	3,319	2,675	-19.4
Jobs and Training Programs	980	700	-28.6
Laborers	430	168	-60.9

NOTE: 1985 and 1998 data are from April.

^a“Job Families” are different than “Career Families.” DOER used “Job Families” through 1998 to group job classifications. In 1999, DOER replaced “Job Families” with “Career Families.”

SOURCE: Minnesota Department of Employee Relations.

ORGANIZATION OF HUMAN RESOURCES IN STATE GOVERNMENT

Human resources includes various personnel functions such as classification of jobs, recruitment of candidates to fill open positions, testing or evaluating applicants, and certification of candidates as eligible for employment. The

In state government, hiring and promotions are based on merit system principles; compensation and working conditions are determined through collective bargaining.



State employees work in a wide variety of occupations.

Minnesota Department of Employee Relations (DOER) is the state's central human resources agency.⁹

In 1939, Minnesota became one of the first states to enact civil service reforms linking hiring and promotion to evaluation of skills related to the job, and establishing the Department of Civil Service, a forerunner of the Department of Employee Relations. Collective bargaining was authorized by The Public Employee Labor Relations Act (PELRA) enacted in 1971 and amended in 1973 to permit a limited right to strike for many employees. PELRA was further amended in 1980 to create statewide bargaining units and extend the right to strike.¹⁰ These laws established the two key elements of Minnesota's human resources policy: to base employee selection and promotion on merit rather than personal or political relationships,

and to rely on collective bargaining to establish employee compensation and working conditions.

As late as the 1970s human resources services were substantially centralized in what was then called the Department of Personnel. This arrangement emphasized the regulatory responsibility of the central human resources department to prevent any departure from merit system principles. However, centralized expertise over the staffing needs of agencies proved difficult to maintain, and complaints about poor service grew.¹¹ Over the last two decades the system has evolved so that greater functional responsibility is now placed in the human resource sections of state agencies and service rather than regulation is increasingly emphasized as the central responsibility of DOER. The Department of Employee Relations still serves as the single employer for the executive branch, however, and is still expected to provide expertise and statewide consistency in personnel management.¹²

DOER delegates control of many human resources functions to the larger state agencies while providing comprehensive services only for small agencies. The delegated functions typically include development of experience and training

⁹ Minnesota Statutes Chapter 43A defines the power and duties of the department and contains the state's compensation policies.

¹⁰ *Minn. Stat.* §179A.10.

¹¹ The Program Evaluation Division of the Office of the Legislative Auditor conducted a comprehensive study of the state's central human resources agency, then known as the Department of Personnel, in 1978.

¹² DOER is the employer of executive branch employees excluding the faculty and top administrators of MnSCU, which bargains with several faculty organizations representing these employees.

ratings, eligible list establishment and maintenance, administration of examinations, approval of non-list appointments (such as transfer, mobility assignment, temporary appointment), and various other functions. Hiring for classes used by more than one agency continues to be restricted to statewide lists administered by DOER. As our survey of agency human resources directors presented in Chapter 3 shows, this is a continuing source of friction between DOER and state agencies. Among the departments with full delegation of authority from DOER are: Administration, Finance, Health, Human Services, Minnesota Planning, Natural Resources, Revenue, and Transportation. These are generally large departments with sizable human resources divisions.

The DOER responsibilities directly relating to employee compensation include:¹³

- **Classification of jobs and evaluation of job complexity.**
- **Labor relations, including negotiation and administration of collective bargaining agreements between the state and the unions representing state employees.**
- **Administration of the compensation plans for unrepresented employees.**
- **Administration of employee insurance programs.**

Job Classification and Evaluation

Minnesota has about 2,200 separate job classifications.

An employer as large and diverse as the state of Minnesota necessarily employs people to perform many jobs. Not counting academic positions, most jobs in the executive branch (about 89 percent) are in the “classified” civil service.¹⁴

“Classified” jobs are those filled on the basis of formal tests or ratings of the applicant’s ability to perform specific job requirements. DOER tries to group positions similar in duties and responsibilities in the same job classification in order to maintain consistency in compensation across state agencies. Despite efforts to group similar jobs into a limited number of job classes, Minnesota has around 2,200 separate job classifications, many with only one employee.¹⁵

“Unclassified” jobs in the executive branch are not subject to the same hiring requirements as classified jobs. Unclassified jobs include department heads and top management of state agencies, elected officials, confidential secretaries or assistants, as well as temporary and student workers and a variety of other specific job categories spelled out in law.¹⁶

The Department of Employee Relations is responsible for maintaining, revising, and administering the state’s job classification plan. New positions need to be

¹³ Minn. Stat. Ch.#43A.

¹⁴ As of January 6, 1999.

¹⁵ Additional job classes allow more specific job qualifications or job duties to be incorporated into the recruiting process, as well as a different salary range than that of otherwise similar classes. In general, agencies have more control over the job classes that are unique to the agency.

¹⁶ Minn. Stat. §43A.08.

allocated to an appropriate class or a new class established. A salary range or rate must be assigned to each class. If a class is in a bargaining unit, the salary range is assigned pursuant to the applicable collective bargaining agreement.¹⁷

Since the 1970s DOER has used a job evaluation system developed by the Hay Group, a large international human resources consulting firm. The Hay system is used by many private and public employers to help achieve proportionality and equity in employee compensation. The Hay system was first used in Minnesota in 1970 to measure managerial jobs, and used in 1978 to measure all executive branch jobs. Today about 1,900 job classifications in state government have Hay ratings. Hay evaluations are conducted for new positions that do not fit into existing classes, when a job needs to be evaluated because of disagreement about the appropriate level of a position, if a position is part of a broader job classification study, or if the position has not been evaluated for many years and there is concern that the job has changed.

To promote internal consistency, the Department of Employee Relations calculates a numerical rating of job complexity for most state job classes.

The Hay method calculates a numerical rating for each job. Table 1.4 summarizes the four factors that are considered in calculating Hay ratings: Know-How, Problem Solving, Accountability, and Working Conditions. As Table 1.4 shows, each factor has several sub-factors. For example, “Know-How” refers to the skills required for acceptable job performance, including practical procedures, specialized techniques, and learned disciplines. “Know-How” also includes managerial and human relations skills involved in the job. “Problem Solving” has two dimensions: the environment in which the problem solving takes place and the challenge presented by the thinking to be done. “Accountability” is measured on three dimensions: freedom to act, job impact on end results, and magnitude in dollars of the programs or activities primarily affected by the job. Evaluation of

Table 1.4: Hay Job Evaluation Factors

Know How

- Technical or Specialized Knowledge
- Managerial Skills
- Human Relations Skills

Problem Solving

- Environment in Which Thinking Takes Place
- Challenge Presented by Thinking

Accountability

- Freedom to Act on Decisions
- Job Impact on the End Results of the Agency
- Size of Budget or Magnitude of Influence

Working Conditions

- Physical Effort
- Environment
- Hazards

SOURCE: Minnesota Department of Employee Relations.

¹⁷ Minn. Stat. §43A.07, subd. 2.

“Working Conditions” involves consideration of physical effort, environment, and hazards associated with the job. The various factors are combined in a somewhat complex fashion which will not be described here. To be clear, Hay ratings are not based on what a job is paid in the marketplace or on the performance of state employees in the job.

Hay ratings range from under 100 for food service workers or traffic recorders to 1,500 to 2,000 for deputy commissioners in large state departments. Agency heads are not rated, but under the system, department heads in larger departments would have ratings between 1,800 and 2,400. In the next chapter we examine data on how salaries are related to Hay points within state government in comparison to private employers nationally who use the Hay system.

Ratings are calculated by a committee of three to five trained raters drawn from DOER, agency human resource staff, or agency management knowledgeable about the jobs being rated. Committee members evaluate the positions separately using charts developed for the purpose, then reach a consensus. Between July and December 1998, 18 Hay committees performed 51 Hay evaluations. The number of annual Hay evaluations has ranged between 70 and 139 per year in recent years. A total of 549 ratings were performed between July 1993 and December 1998. DOER periodically evaluates the Hay ratings performed by its staff and others. In April 1998, a consultant from the Hay group reviewed 166 Hay ratings and found that 7 percent required revision and a change in total Hay points, indicating a generally high level of performance by raters.

Jobs with similar ratings should receive similar pay.

Hay ratings are an important tool in assigning a salary range to a job classification. Jobs with similar Hay points ideally should receive similar pay, but DOER’s policy allows salaries to be set one or two ranges up or down from the ideal salary range associated with the job’s Hay points. DOER’s Compensation Division periodically reviews Hay ratings as a measure of internal consistency in compensation. The Compensation Division also examines the pay of female-dominated job classes and moves any up in pay that are more than two salary ranges below the ideal range.

Determination of Employee Compensation

While the classification system establishes the overall framework of employee compensation, changes in compensation are determined through collective bargaining for represented employees. Collective bargaining agreements also indirectly help determine compensation for unrepresented employees. The pattern of employee compensation for government typically differs from that of private employment. As we will see in the next chapter, the range of state employee compensation is quite compressed compared to the range of private sector compensation.

DOER represents the state in bargaining, except in the case of the bargaining units composed of MnSCU faculty where MnSCU represents the state. The Minnesota Public Employment Labor Relations Act (PELRA) defines 17 bargaining units for

executive branch employees.¹⁸ Sixteen of these have elected exclusive representatives and are shown in Table 1.5 along with the labor unions that have been certified as exclusive representatives for the bargaining units.¹⁹

Table 1.5: State Employees by Bargaining Unit, 1999

Union and Bargaining Unit	State Employees	
	Number	Percent
American Federation of State, County, and Municipal Employees (AFSCME)		
Craft, Maintenance, and Labor Unit	2,539	4.8%
Service Unit	3,201	6.1
Health Care Non-Professional Unit	3,205	6.1
Clerical and Office Unit	7,706	14.6
Technical Unit	3,624	6.9
Correctional Officers Unit	1,639	3.1
Middle Management Association (MMA)		
Supervisory Employees Unit	2,930	5.6
Minnesota Association of Professional Employees (MAPE)		
General Professional Unit	10,612	20.1
Minnesota Government Engineer's Council (MGEC)		
Professional Engineering Unit	840	1.6
Minnesota Law Enforcement Association (MLEA)		
Law Enforcement Unit	735	1.4
Minnesota Nurse's Association (MNA)		
Health Care Professional Unit	947	1.8
State Residential Schools Education Association (SRSEA)		
Professional State Residential Instructional Unit	192	.4
Inter-Faculty Organization (IFO)		
State University Instructional Unit	3,020	5.7
Minnesota Community College Faculty Association (MCCFA)		
Community College Instructional Unit	1,893	3.6
United Technical College Educators (UTCE)		
Technical College Instructional Unit	4,375	8.3
Minnesota State University Association of Administrative and Service Faculty (MSUAASF)		
State University Administrative Unit	454	.9
Unrepresented ^a	4,837	9.2

NOTE: Data are from June 1999.

^a "Unrepresented" are employees who do not bargain any terms or conditions of their employment, and include confidential employees, agency heads, health treatment professionals, and others.

SOURCE: Minnesota Department of Employee Relations.

¹⁸ Minn. Stat. §179A.10.

¹⁹ All but one of the bargaining units (the Health Treatment Professional unit) have chosen to elect exclusive representatives to bargain for the employees of the unit.

Pay and working conditions are determined through collective bargaining once the state budget is set.

Table 1.5 also shows the number of employees in each bargaining unit as of June 1999, plus the number of unrepresented employees. About 9.2 percent of state employees are unrepresented. The compensation and working conditions of unrepresented employees is governed by several plans, including the Commissioner's Plan and the Managerial Plan, which are administered by DOER, MNSCU, and several constitutional offices.

In Minnesota state government the collective bargaining cycle is tied to the budget cycle. Agency budgets are determined every two years as the Legislature appropriates money for each department and program. As part of the appropriations process, the Legislature may enact a salary supplement based on an assumption about how much salaries will or should increase during the biennium, but neither this amount (if any), nor the percentage change in agency budgets, places any necessary limit on the size of salary increases reached through bargaining.

Of course, agencies need to budget for purposes other than employee compensation. Both parties in the collective bargaining negotiations must consider trade offs between compensation increases and the ability to fund positions and programs. Bargaining agreements have a varying impact across state government. Agencies vary quite widely in terms of how much of their spending goes to employee compensation or to compensation for employees in particular bargaining units.

Employment contracts typically cover a two year period. Bargaining can begin once the budget is enacted, but collective bargaining agreements are not usually reached before the first fiscal year of the new biennium which begins in July. It is customary for DOER to first concentrate on negotiations with the largest employee unions, the American Federation of State, County, and Municipal Employees (AFSCME) and the Minnesota Association of Professional Employees (MAPE). AFSCME Council No. 6 represents six bargaining units with 21,914 employees, and MAPE represents 10,612 employees. Together these unions represent over half of all state employees (see Table 1.5). Bargaining agreements between the state and these unions set a pattern for other negotiations with smaller unions, and also set a pattern for compensation and other issues for unrepresented employees. It is frequently the case, however, that bargaining continues into the time of the legislative sessions held in even numbered years.

Once DOER and union representatives reach an agreement, union members must vote to accept or reject it. The Legislature must ultimately approve collective bargaining agreements, so union members actually are voting on "tentative" contracts. Since 1995, responsibility and authority for oversight of collective bargaining and employee relations have rested with the Legislative Coordinating Commission, which has established a subcommittee on employee relations.²⁰ The commission reviews and, as appropriate, approves the contracts which then go into effect pending final ratification by the Legislature. Contracts are almost always approved by the commission.

²⁰ *Minn. Stat.* §3.855. Before 1995, these functions were carried out by the Legislative Commission on Employee Relations.

Administration of Employee Benefits

The Department of Employee Relations administers employee insurance programs for state employees and other active and retired employees, including employees of the University of Minnesota. In recent years, the state has moved to standardize health insurance benefits and to assume greater underwriting risk for health and dental insurance. The state also self-insures for workers' compensation coverage and manages workers' compensation claims for state employees.

Retirement benefits are not administered by DOER, nor are they determined through the collective bargaining process. State employees participate in various retirement plans. Pension policy is set by the Legislature through the Legislative Commission on Pension and Retirement which oversees most public employee pensions in the state. The great majority of state employees are covered by a defined benefit plan administered by MSRS and financed by a 4 percent of salary contribution by the state and the employee.²¹ There are other plans for unclassified employees, public safety workers, and others.

This report does not examine the many policy questions involving pensions and retirement, although they are a concern of the Legislature. Our office, for example, recently examined early retirement incentives.²² Also, last year the Legislature asked the Legislative Commission on Pensions and Retirement to do a study comparing public and private pension benefits and report by January 2000.

COMPENSATION POLICY

State employee compensation should be internally consistent and externally competitive to the degree possible.

We have noted above that employment in Minnesota state government is grounded on two statutory principles: hiring and promotion is to be based on merit as determined by tests based on the requirements of the job (rather than personal or political relationships), and pay and conditions of work are to be negotiated by the state and organizations representing employees. In addition, there are other statutory goals relating to human resource management that govern compensation. State law requires personnel decisions to be nondiscriminatory as defined by the Minnesota Human Rights Act.²³ Minnesota also enacted a "pay equity" policy in 1981 to establish equitable compensation relationships between female-dominated, male-dominated, and balanced classes of employees in the executive branch.²⁴

Furthermore, Minnesota statutes instruct the Commissioner of Employee Relations to pursue several objectives in collective bargaining negotiations, including:²⁵

²¹ Defined benefit plans pay benefits based on average salary and years of service. Defined contribution plans pay benefits based on employee and employer contributions and investment results.

²² Office of the Legislative Auditor, *Early Retirement Incentives* (St. Paul, March 1995); <http://www.auditor.leg.state.mn.us/ped/1995/retire.htm>.

²³ *Minn. Stat.* Ch. 363

²⁴ *Minn. Stat.* §43A.01, subd. 3.

²⁵ *Minn. Stat.* §43A.18, subd. 8.

**The State's
compensation
policy goals are
not compatible
with one another.**

- Compensation for positions in the classified and unclassified service should compare reasonably to one another;
- Compensation for state positions should bear a reasonable relationship to compensation for similar positions outside state service;
- Compensation for management positions should bear a reasonable relationship to compensation of represented employees managed;
- Compensation for positions within the classified service should bear a reasonable relationship among related job classes and among various levels within the same occupation; and
- Compensation for positions which require comparable skill, effort, responsibility, and working conditions should be comparable, and compensation for positions requiring different skill, effort, responsibility, and working conditions should be proportional to the skill, effort, responsibility, and working conditions required.

These goals are not entirely compatible with one another. A salary structure that is competitive will not necessarily be internally consistent and proportional. The collective bargaining process may not result in salaries that are either internally consistent or competitive with market rates. In addition, it is an element of our political culture that public employees at the upper levels should not receive monetary compensation equivalent to upper level management or professional positions in the private sector.

SUMMARY

About 50,000 people are employed in the executive branch of state government in over 2,200 different jobs. Excluding technical college employees added through reorganization, the number of state employees grew 29 percent between 1980 and 1999. The state payroll per employee, adjusted for inflation has remained almost constant between 1980 and 1998. Minnesota employees are fairly evenly divided between the Twin Cities area and the balance of the state.

The process by which state employee compensation is determined rests on merit-system principles established by civil service reforms dating to the 1930s and the right of state employees to organize and bargain collectively, established and extended in the 1970s. Among other objectives, state laws direct the Department of Employee Relations to work through the bargaining process to achieve a pattern of state compensation which is internally consistent and competitive in the larger economy.

While Minnesota's compensation policy is not entirely consistent, it has guided our analysis of compensation presented in the following chapter. We examine the internal equity and proportionality of state salaries, and we compare state compensation to compensation offered by other employers in Minnesota and other states.