

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 793 (Senator Middleton)

Finance and Budget and Taxation

Appropriations

State Personnel - Automatic Step Increases - Standard Pay Plan

This emergency bill establishes that regulations adopted by the Secretary of Budget and Management related to the Standard Pay Plan must include certain elements that reflect current practice. Specifically, regulations must provide for automatic increases, from minimum to maximum steps in a pay grade, of the pay rates set by the Standard Pay Plan for an employee whose overall performance is rated “satisfactory” or above on the employee’s annual performance appraisal form.

Fiscal Summary

State Effect: None. The bill requires regulations to clarify existing practice, as discussed below.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Within the State Personnel Management System (SPMS), there are two pay plans: the Standard Pay Plan and the Executive Pay Plan. The purpose of the pay plans is to provide employees in positions that involve comparable effort, knowledge, responsibilities, skills, and working conditions with comparable pay according to the relative value of services performed. The Standard Pay Plan includes all positions in SPMS and all other positions for which the Secretary of Budget and Management has authority to administer pay.

Pay rates in the Standard Pay Plan may be set by a series of pay grades and steps within each grade, fixed rates, or minimum and maximum amounts. When setting or amending a

pay rate, the Secretary of Budget and Management must consider the prevailing pay rates for comparable services in private and public employment, experience, living costs, benefits, and the financial condition and policies of the State. A pay rate is subject to any limitations included in the State budget.

The Secretary of Budget and Management may increase pay rates for a specific class under the Standard Pay Plan with the approval of the Governor in order to recruit or retain competent personnel or to ensure that pay rates adequately compensate for the effort, knowledge, responsibility, skills, and working conditions of employees in that class.

The Secretary of Budget and Management must adopt regulations that provide for increases, from minimum to maximum, of the pay rates set by the Standard Pay Plan.

An employee in the Standard Pay Plan must be denied a pay increase if the denial is a result of (1) disciplinary action imposed by an appointing authority; (2) an employee being on probation; or (3) an employee's lack of productivity or excessive, unexcused absenteeism. An employee may not be denied a pay increase for performance reasons that adversely affect the value of the employee to the State unless substantial performance reasons were cited on the employee's mid-year or final performance appraisal forms. An employee who is denied a pay increase may appeal the denial.

The Maryland Department of Transportation (MDOT) must use the standard salary schedule adopted by the Secretary of Budget and Management in establishing a pay plan. The Secretary of Transportation must prepare and recommend a standard pay plan for all classes of positions in the human resources management system that conforms to most provisions that govern the Standard Pay Plan of the State.

Background: Despite the requirement that regulations adopted by the Secretary of Budget and Management provide for increases of the pay rates set by the Standard Pay Plan, no specific State law or regulation establishes that State employees are entitled to annual automatic salary increases. Nevertheless, salary guidelines established by the Secretary provide that employees who receive positive performance evaluations are entitled to step increases in their salary grade. In 2010, the Secretary of Budget and Management made changes to the employee performance appraisal process that decreased the importance of mid-year evaluations. Unified rating periods were instituted, meaning that increments are determined only by end-of-year evaluations, not by mid-year evaluations. These guidelines are not found in the Annotated Code, Code of Maryland Regulations, or on the Department of Budget and Management (DBM) website and may be altered at the Secretary's discretion.

The law was not always silent, however, on automatic salary increases for State employees. Prior to 1996, the law stated that "the regulations adopted under this subtitle shall provide

for *automatic* [emphasis added] increases, from minimum to maximum, of the pay rates set by the Standard Pay Plan.”

In 1996, legislation was enacted that reformed SPMS. The legislation implemented the recommendations of the Task Force to Reform the State Personnel Management System, which was established by executive order. The current laws governing SPMS employees (the majority of State employees) stem largely from the 1996 reforms.

Automatic increments were struck from the law by the General Assembly in 1996 at the suggestion of the former State Department of Personnel because, once the State adopted pay-for-performance as proposed by the task force, the concept of automatic increases was inconsistent with the pay-for-performance proposal. The concept behind pay-for-performance is that an employee is not guaranteed an “automatic” salary adjustment since any salary adjustment would be based on the employee’s performance. In addition, the task force envisioned that the State would move away from “grades and steps” pay rates to “minimum and maximum” pay rates within employee classifications.

Pay-for-performance was to officially commence for all SPMS employees during fiscal 1999, and the grades and steps Standard Pay Plan put into effect was to terminate in fiscal 2000. Instead of adopting pay-for-performance as envisioned by the task force, and adopted by the General Assembly in 1996, DBM continued with grades and steps pay rates in the Standard Pay Plan.

Over the last decade, State employee salary increases have been irregular, with periods of increases followed by periods in which average salaries remained flat or declined. Increments were not funded in fiscal 2010 through 2013; the Governor’s proposed fiscal 2016 budget also does not include funding for increments.

State Fiscal Effect: Salary guidelines established by the Secretary of Budget and Management generally state that employees who receive positive performance evaluations must receive an annual pay increase of one step within the employee’s salary grade until the maximum rate has been reached, provided funds are available in the State budget. Thus, the bill codifies existing practice of providing a step increase to employees who are rated “satisfactory” or above. Moreover, current practice is to give employees increments when funds are available in the budget; this remains unchanged by the bill. In the past seven years, State employees only received employee increments twice.

The fiscal 2016 budget does not fund employee increments, thereby reducing appropriations by \$108.2 million, which totals \$86.4 million in general funds, \$13.3 million in special funds, and \$8.4 million in federal funds. The general fund share of current unrestricted funds budgeted in public four-year higher education institutions, which are not affected by the bill, comprises \$43.7 million of the total amount. Additionally, the

Judiciary, which consists of \$5.6 million of the \$108.2 million total, is not affected by the bill. Thus, based on those numbers, the Department of Legislative Services assumes providing automatic step increases to SPMS and MDOT employees, *if funded in the budget*, would increase State expenditures (all funds) by \$58.9 million in fiscal 2016.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Budget and Management, Maryland Department of Transportation, Department of Legislative Services

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