

ANALYSIS OF THE NEW JERSEY
FISCAL YEAR 1999 - 2000 BUDGET



DEPARTMENT OF PERSONNEL

PREPARED BY
OFFICE OF LEGISLATIVE SERVICES
NEW JERSEY LEGISLATURE
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NEW JERSEY STATE LEGISLATURE

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DEPARTMENT OF PERSONNEL

Budget Pages..... C-10, C-18, D-305 to D-310

Fiscal Summary (\$000)

	Expended FY 1998	Adjusted. Appropriation FY 1999	Recommended FY 2000	Percent Change 1999-00
State Budgeted	\$27,540	\$27,609	\$28,009	1.4%
Federal Funds	355	0	0	—
<u>Other</u>	<u>0</u>	<u>2,549</u>	<u>1,949</u>	<u>(23.5)%</u>
Grand Total	\$27,895	\$30,158	\$29,958	(0.7)%

Personnel Summary - Positions By Funding Source

	Actual FY 1998	Revised FY 1999	Funded FY 2000	Percent Change 1999-00
State	435	408	435	6.6%
Federal	0	0	0	—
<u>Other</u>	<u>0</u>	<u>0</u>	<u>0</u>	—
Total Positions	435	408	435	6.6%

FY 1998 (as of December) and revised FY 1999 (as of September) personnel data reflect actual payroll counts. FY 2000 data reflect the number of positions funded.

Introduction

The Department of Personnel was established by the Civil Service Act (Title 11A), P.L. 1986, c.112. The department administers the personnel system for all of State government and provides personnel services to 20 of New Jersey's 21 counties and to 192 municipalities. The mission of the department is to develop and administer an effective, efficient and comprehensive personnel system based on merit and sound management principles and provide employee training programs, which foster the objectives of government, ensure equitable treatment of employees, and serve the best interests of the public.

Key Points

- ! The FY 2000 Direct State Service (DSS) recommended appropriation for the Department of Personnel is \$28.0 million, a net increase of \$400,000, or 1.4 percent, more than the FY

Key Points (Cont'd)

- 1999 adjusted appropriation. According to the Budget in Brief (pages 45 & 87), a decrease of \$200,000 in administrative expenses are offset by \$130,000 in additional funding "to cover the increased Office of Information Technology expenditures" and \$470,000 in funding for a new special purpose account: Document Storage and Retrieval. The \$470,000 recommended appropriation is part of a statewide technology initiative for "a centralized processing and storage function. Funding for the centralized unit will be through reallocation of agency savings." According to the Budget Message (page D-305), the program "will enable the Division to reduce appeals backlog and enhance productivity.
- ! The Governor's recommended budget anticipates a decrease in revenue from exam fees (Budget Message page C-18) of \$600,000, or 35.1 percent, in FY 2000. Budget language, however, permits the department to carryforward receipts derived from fees charged to applicants for open competitive or promotional examinations and the unexpended fee balance of up to \$600,000 from fire fighter examination receipts.
 - ! The Governor's recommended budget includes \$800,000 for the Classification and Compensation Redesign study initiated in FY 1999. The department has issued a Request-for-Proposal and is currently reviewing responses from several private contractors to design and implement a new classification and compensation system for the State that will reduce the number of job titles and incorporate performance-based pay.
 - ! The department has proposed rule changes affecting layoff units, bumping rights, credit for performance, seniority and special reemployment rights for State employees.
 - ! The Office of Management and Budget has indicated the department will lapse to the General Fund \$1.7 million in receipts derived from training services (Human Resource Development Institute (HRDI) training account). The HRDI is responsible for providing and coordinating training programs for most State and many local government employees.
 - ! The position data displayed in the Governor's recommended budget indicates that the FY 2000 budget would fund a total of 435 positions, an increase of 27, or 7 percent, over the FY 1999 position count. The actual payroll count as of September, 1998 (FY 1999) was 408.

Background Papers

- ! Pay-For-Performancepg. 17
- ! Civil Service Reformpg. 21
- ! State Employee Payroll Countpg. 26
- ! Comparison of Employee Benefitspg. 28

(Revised - 3/26/99)

Program Description and Overview

The Department of Personnel was established by the Civil Service Act (Title 11A), P.L.1986, Chapter 112.

The department administers the personnel system for all 15 State Executive Departments, the Office of the Chief Executive, the Legislature, the Judiciary and miscellaneous State agencies. It also provides personnel services to 20 of New Jersey's 21 counties (Somerset County excluded) and over 192 municipalities and numerous autonomous bodies. The department develops and implements policy governing all phases of personnel administration. This includes the recruitment and examination of qualified candidates; ensuring equitable treatment of employees through its classification and compensation programs; guaranteeing equal employment opportunities; providing for employee appeals procedures; promoting affirmative action; and furnishing selected training programs to employees.

The department is organized into five program classifications: Personnel Policy Development and General Administration; State and Local Government Operations; Merit Services; Equal Employment Opportunity and Affirmative Action; and the Human Resource Development Institute.

Personnel Policy Development and General Administration

Exercises overall direction and control of the department's operations; develops proposals for revised legislation governing the public career system; issues official rules and regulations which implement the Merit System statutes; considers non-disciplinary appeals, reviews hearings and renders decisions; develops, evaluates and adjusts personnel programs; and provides general administrative support.

State and Local Government Operations

Provides all government agencies with support in organizational design, classification of job titles, and equitable compensation; recruits applicants; plans, schedules and conducts examinations; prepares lists of eligible candidates for State and local government positions; certifies the names of eligible candidates; administers reductions in force; administers performance appraisal systems; monitors and processes new hires and promotions; develops and publishes job specifications; maintains employment records and monitors all personnel transactions to ensure compliance with Merit System law and department rules.

Merit Services

Provides professional, technical and clerical support services for the Merit System Board and the Commissioner of Personnel; investigates and responds to appeals; maintains agendas and schedules Board meetings; resolves disputes; prepares and reviews Merit System rules; and ensures compliance with laws and rules governing appointments and determinations.

Equal Employment Opportunity and Affirmative Action

Monitors affirmative action programs in State agencies for compliance and administers the federal Americans with Disabilities Act (ADA); develops and implements programs which insure appropriate representation of protected classes in State government; identifies barriers to equal employment opportunity in the existing merit system; and distributes information on equal employment opportunity and affirmative action programs.

Program Description and Overview (Cont'd)

Human Resource Development Institute

Compiles information on the human resource development and training needs of State government; advises the Governor on these needs; works with the State agencies to prepare human resource development and training plans and programs; presents formal training courses to State government employees; and operates the Employee Advisory Service and implements employee interchange and internship programs.

In recent years, the department's responsibilities have undergone significant change. Executive Order No. 12 of 1990 transferred all the State's training functions to the department to create the Human Resource Development Institute. The Institute was first reflected in the department's budget in FY 1992. In FY 1995, Executive Order No. 41 (of 1994) transferred the eleven personnel and \$667,000 comprising the Office of Employee Relations from the Department of Treasury to the Department of Personnel to create the Division of Employee Relations. Executive Order No. 33 of 1995 subsequently transferred the division to the Office of the Governor. In FY 1994, the pilot program for the Time and Leave Reporting System (TALRS) was transferred from the Department of Treasury to the Department of Personnel.

The department has also initiated an automated placement system (RAPS) and replaced a mini computer system with a PC based LAN network which allows all employees to directly access the Personnel Management Information System (PMIS) and the automated Classification Support System (CSS). In addition, the department is continuing to add State agencies to TALRS and it has awarded a contract to Andersen Consulting to integrate personnel, payroll, pension, TALRS and benefit records into one integrated reporting system, called OMNI.

During 1997, the department implemented (under N.J.S.A.11A:2-11 (i)) several pilot programs:

- ! Rapid Recruitment program - under this program, the department administers a test and generates a list of qualified job applicants in three to six weeks. The department has established a \$15 application fee (\$10 higher than the application fee established under P.L.1992, c.187) for this program.
- ! Licensing and Certification - under this program, the department uses the licensing standards of certain professional and technical positions instead of traditional civil service tests as the qualifying criteria for a position in public service.
- ! Displaced Workers Pool - this program keeps some State employees, targeted for layoffs, on the State payroll. These employees perform work previously done by temporary or part-time employees until a full-time position becomes available through attrition. Twenty-six employees of the Department of Human Services participated in the program during FY 1997. The Administration indicated it would continue the program in FY 1998 to accommodate the estimated 100 personnel to be laid-off as part of the privatization (sale) of the Temporary Disability Insurance (TDI) program. However, this initiative was not enacted. The Governor's FY 2000 budget includes language authorizing the Division of Budget and Accounting to transfer any appropriation made to fund the State's unemployment insurance liability for the purpose of creating a displaced workers pool. However, no layoffs are anticipated.
- ! Expanded Choice in Hiring - under current civil service rules, a public employer must offer a position to one of the top three scorers. This program expanded the choice to the top ten scorers. The program was challenged in court by the Communication Workers of America

Program Description and Overview (Cont'd)

(CWA) on the grounds the pilot program skirted civil service laws. An appeals court upheld the union's challenge.

During FY 1998, the Human Resource Development Institute expanded its use of contract training services (outside consultants) and initiated a new program called computer-based training. Computer-based training can be performed anywhere there is a computer with a CD-ROM drive. This allows employees to train at their worksite at their own pace.

Civil Service Reform Issues

The department is continuing its efforts to reform civil service. During the FY 1998 budget process, the Governor announced that the Department of Personnel would promulgate regulatory changes to eliminate the practice known as "bumping". The department also indicated its intention to replace the existing range and step compensation system with a pay-for-performance system.

In early 1999, the department proposed rule changes affecting layoff units, bumping rights, credit for performance, seniority and special reemployment rights for State employees. Most employee contracts include layoff provisions which permit permanent employees (classified employees who have completed their probationary period) to exercise bumping rights. The State is in the final year of four-year contracts expiring June 30, 1999 with the Communications Workers of America (CWA), the American Federation of State, County, and Municipal Employees (AFSCME), the International Federation of Professional and Technical Engineers (IFPTE) and the Policemen's Benevolent Association (PBA). These unions represent approximately 52,100 State employees.

A new pay-for-performance compensation plan, for the 3,500 middle managers and 2,000 non-aligned employees affected by salary compression was implemented in 1998. This compensation plan had two objectives: 1) to arrest salary compression throughout the State; and 2) give managers a salary increase based on performance.

In FY 1999, \$800,000 was appropriated to design, develop, install and test a revised classification and compensation system for State and local government service. The Governor's FY 2000 budget also recommends \$800,000 for this account. On September 9, 1998 (FY 1999), the department issued a Request for Proposal (RFP) to "solicit bids from qualified professional consulting firms with experience in designing classification and compensation models, including some experience in broadbanding or gradebanding. The consultant must design, develop, install and test a revised classification and compensation model for New Jersey's 77,000 State employees and New Jersey's 108,000 local government employees." The department is currently reviewing the responses from several private contractors.

FY 2000 Budget Overview

The department's FY 2000 budget recommendation of \$28.0 million (an increase of \$400,000 from its FY 1999 adjusted appropriation) permits the continuation of services at current levels. The amount recommended for the Salaries and Wages account is reduced by \$200,000 from the FY 1999 adjusted appropriation to reflect administrative savings. The entire reduction is recommended for the State and Local Government Operations program classification. According to the Budget in Brief (p.87), "new funding of \$130,000 has been added to cover the increased Office of Information Technology expenditures. Additionally, \$470,000 has been added to the Division of Merit Services in support of a Document Storage and Retrieval System. Implementation of this system is part of a statewide technology initiative for a centralized processing capability which will enable the Division to enhance productivity and timeliness of handling appeals."

Program Description and Overview (Cont'd)

The department expects a decrease in revenue from exam fees (Budget page C-18) of \$600,000 in FY 2000. Budget language, however, will permit the department to carry forward receipts derived from fees charged to applicants for open competitive or promotional examinations and the unexpended balance of up to \$600,000 from fire fighter examination receipts.

Off-Budget Items

In addition to direct State appropriations, the department has the statutory authority or budget language authority (Budget page D-310) to collect and spend the following receipts: receipts from the \$5 application fee for open competitive and promotional examinations; receipts from the fee increase for open competitive and promotional police and firefighter titles; receipts from the fee increase to fund a "displaced workers pool"; receipts from providing training services to State agencies and local governments; and receipts from providing the Employee Advisory Service to local governments. In FY 1998, the department received \$2,302,000 from these fees. The department anticipates receiving \$2,549,000 in FY 1999 and \$1,949,000 in FY 2000.

Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS (\$000)

	Expended FY 1998	Adj. Approp. FY 1999	Recom. FY 2000	Percent Change	
				1998-00	1999-00
General Fund					
Direct State Services	\$27,540	\$27,609	\$28,009	1.7%	1.4%
Grants - In - Aid	0	0	0	0.0%	0.0%
State Aid	0	0	0	0.0%	0.0%
Capital Construction	0	0	0	0.0%	0.0%
Debt Service	0	0	0	0.0%	0.0%
Sub-Total	\$27,540	\$27,609	\$28,009	1.7%	1.4%
Property Tax Relief Fund					
Direct State Services	\$0	\$0	\$0	0.0%	0.0%
Grants-In-Aid	0	0	0	0.0%	0.0%
State Aid	0	0	0	0.0%	0.0%
Sub-Total	\$0	\$0	\$0	0.0%	0.0%
Casino Revenue Fund	\$0	\$0	\$0	0.0%	0.0%
Casino Control Fund	\$0	\$0	\$0	0.0%	0.0%
State Total	\$27,540	\$27,609	\$28,009	1.7%	1.4%
Federal Funds	\$355	\$0	\$0	-100.0%	0.0%
Other Funds	\$0	\$2,549	\$1,949	----	-23.5%
Grand Total	\$27,895	\$30,158	\$29,958	7.4%	-0.7%

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 1998	Revised FY 1999	Funded FY 2000	Percent Change	
				1998-00	1999-00
State	435	408	435	0.0%	6.6%
Federal	0	0	0	0.0%	0.0%
All Other	0	0	0	0.0%	0.0%
Total Positions	435	408	435	0.0%	6.6%

FY 1998 (as of December) and revised FY 1999 (as of September) personnel data reflect actual payroll counts. FY 2000 data reflect the number of positions funded.

AFFIRMATIVE ACTION DATA

Total Minority Percent	30.1%	34.8%	33.6%	----	----
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Significant Changes/New Programs (\$000)

<u>Budget Item</u>	<u>Adj. Approp.</u> <u>FY 1999</u>	<u>Recomm.</u> <u>FY 2000</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>	<u>Budget</u> <u>Page</u>
Direct State Services:					
Salaries and Wages	\$19,876	\$19,676	(\$200)	(1.0)%	D-309

The reduction is recommended for the State and Local Government Operations program classification. According to the Budget in Brief (page 87), the budget "has been reduced by \$200,000 for administrative savings". According to the position data (Budget Message page 309), the division's resources will fund 261 positions, 6 more than the actual payroll counts in FY 1999. This program provides government agencies with support in organizational design, classification of job titles, and compensation; plans, schedules and conducts civil service examinations; prepares lists of eligible candidates for State and local government positions; monitors and processed new hires and promotions; administers performance appraisal systems; and maintains employment records and all personnel transactions to ensure compliance with Civil Service statutes and department rules.

Services Other Than Personal	\$4,904	\$5,034	\$130	2.7%	D-309
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According to the Budget in Brief (page 87), the \$130,000 in additional funding is "to cover the increased Office of Information Technology expenditures". The Office of Information Technology (OIT) provides centralized data processing services for such programs as the Personnel Management Information System (PMIS) with links to the Centralized Payroll system operated by the Office of Management and Budget. The PMIS computer system maintains electronic records of all personnel transactions.

Document Storage and Retrieval	\$0	\$470	\$470	—	D-309
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According to the Budget in Brief (page 87), the recommended appropriation "has been added to the Division of Merit Services in support of a Document Storage and Retrieval System. Implementation of this system is part of a statewide technology initiative for a centralized processing capability which will enable the Division to enhance productivity and timeliness of handling appeals." According to the Budget in Brief (page 45), "Beginning in fiscal 1999, standards and procedures for imaging technology will be developed for all State agencies. The centralized analytical unit will work with departments to plan and develop workflow and imaging projects. A final phase will establish a centralized processing and storage function. Funding for the centralized unit will be obtained through reallocation of agency savings."

Significant Changes/New Programs (\$000) (Cont'd)

<u>Budget Item</u>	<u>Adj. Approp.</u> <u>FY 1999</u>	<u>Recomm.</u> <u>FY 2000</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>	<u>Budget</u> <u>Page</u>
All Other Funds:					
State and Local Government Operations	\$1,931	\$1,331	(\$600)	(31.1)%	D-310

Budget language permits the department to charge fees for certain activities and retain the revenue from these fees to fund departmental activities. The Governor's recommended budget anticipates a decrease in revenue from application fees for open competitive or promotional civil service examinations of \$600,000, or 31.1 percent, in FY 2000. N.J.S.A.11A:4-1.1 (P.L.1992, c.197) allows the department to charge a \$5.00 application fee for open competitive and promotional civil service examinations. P.L.1998, c.63 (effective July 30, 1998), authorized the department to increase the \$5.00 application fee for open competitive and promotional examinations for police and firefighter titles. The department originally estimated the 1998 fee increase would generate approximately \$1.2 million annually.

Actual receipts from the fee increase will be less than originally estimated because the firefighter examination is only offered every other year. The Governor's budget recommends language to carryforward up to \$600,000 in unexpended fees collected from fire fighter examination receipts.

Language Provisions

1999 Appropriations Handbook

p. B-132

Receipts derived from fees charged to applicants for open competitive or promotional examinations are appropriated subject to the approval of the Director of the Division of Budget and Accounting.

2000 Budget Recommendations

p. D-310

Receipts derived from fees charged to applicants for open competitive or promotional examinations and the unexpended fee balance as of June 30, 1999 not to exceed \$600,000 collected from fire fighter examination receipts are appropriated subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

This language allows the department to appropriate, subject to the approval of the Director of the Division of Budget and Accounting, the revenue (Budget Message page C-18) derived from fees charged for open competitive and promotional civil service examinations, including the fire fighter examination receipts.

According to the Office of Management and Budget, the FY 2000 recommended language addition is intended to carryforward, subject to the approval of the director, the unexpended fee balance as of June 30, 1999 not to exceed \$600,000 collected from fire fighter examination receipts.

N.J.S.A. 11A:4-1.1 allows the department to charge a \$5.00 application fee for open competitive and promotional civil service examinations. The department received \$835,000 in application fee revenue in FY 1998 (Budget Message page C-10). P.L.1998, c.46, effective July 1, 1998, authorized the department to increase the \$5.00 application fee for open competitive and promotional examinations for police and firefighter titles. The department originally estimated the 1998 fee increase would generate approximately \$1.2 million annually. However, the firefighter examination is only offered every other year, therefore, actual receipts from the fee increase will fall short of the department's original estimate of \$1.2 million every other year. Consequently, the department anticipates collecting \$1,709,000 in FY 1999 and \$1,109,000 in FY 2000 (Budget Message page C-18).



Language Provisions (Cont'd)

<u>1999 Appropriations Handbook</u>	<u>2000 Budget Recommendations</u>
<p>p. B-132</p> <p>In addition to the amount appropriated hereinabove, receipts in excess of the amount anticipated, attributable to changes in the fee structure or fee increases charged to applicants for open competitive or promotional examinations for a "displaced worker pool", are appropriated for this purpose for State employees scheduled to be laid off.</p> <p>Receipts derived from training services and any unexpended balance as of June 30, 1998 are appropriated subject to the approval of the Director of Budget and Accounting.</p> <p>Receipts derived from Employee Advisory Services are appropriated subject to the approval of the Director of the Division of Budget and Accounting.</p>	<p>p. D-310</p> <p>The same language.</p> <p>The same language.</p> <p>The same language.</p>

Explanation

The department charges State agencies and local governments for providing training programs and employee counseling (EAS) programs (e.g., drug and alcohol abuse programs). According to the Budget Message (page C-10), the department received \$1,467,000 in EAS and training fees in FY 1998. The department anticipates (Budget Message page C-18) receiving \$618,000 in fees from providing EAS and training in FY 1999 and FY 2000. Of this total, approximately \$318,000 is from training fees and \$300,000 is from EAS fees.



Language Provisions (Cont'd)

1999 Appropriations Handbook

No comparable language.

2000 Budget Recommendations

p. D-310

To the extent that the costs of imaging projects are reduced, funds appropriated to individual departments for the purchase of imaging related projects may be available for reallocation to a centralized function, as the Director of the Division of Budget and Accounting shall determine.

Explanation

The Governor's budget recommends \$470,000 for a new special purpose account - Document Storage and Retrieval. According to the Budget in Brief (page 87), the recommended appropriation "has been added to the Division of Merit Services in support of a Document Storage and Retrieval System. Implementation of this system is part of a statewide technology initiative for a centralized processing capability which will enable the Division to enhance productivity and timeliness of handling appeals." According to the Budget in Brief (page 45), "Beginning in fiscal 1999, standards and procedures for imaging technology will be developed for all State agencies. The centralized analytical unit will work with departments to plan and develop workflow and imaging projects. A final phase will establish a centralized processing and storage function. Funding for the centralized unit will be obtained through reallocation of agency savings."

The recommended language permits the Director of the Division of Budget and Accounting to reallocate the \$470,000 recommended appropriation without additional legislative approval.



Discussion Points

1. a. The Office of Management and Budget has indicated that \$1.7 million in fees derived from training services provided by the Human Resource Development Institute (HRDI) will be lapsed to the General Fund. The HRDI is responsible for coordinating training programs for most State and many local government employees.

! *Questions:* How did the HRDI generate \$1.7 million in "surplus" funds? Is the department charging State and local governments more than the actual cost of training? How much of this money is from agencies and departments of State government and how much is from local governments?

1. b. The Governor's budget (Budget page C-10) indicates that the HRDI collected almost \$1.5 million in fees for its services in FY 1998. However, revenues for FY 1999 and FY 2000 (Budget page C-18) are expected to be only \$618,000 in each year.

! *Question:* Why is there a reduction anticipated in HRDI fee revenues when the client workload data (Budget page D-308) show increasing numbers of trainees and contact hours?

2. a. The Governor's budget includes \$800,000 for the special purpose account - Classification and Compensation Redesign, increasing the total funding (appropriated in FY 1999 and recommended for FY 2000) for this project to \$1.6 million. The department issued a Request for Proposal (RFP) September 9, 1998 and is currently reviewing responses from several private contractors to design and implement a new classification and compensation system that will reduce the number of job titles and incorporate performance-based pay.

! *Questions:* Why are additional funds recommended for this purpose? What is the total anticipated cost of designing and implementing a new classification and compensation system? When will the review and selection process be completed? What is the anticipated schedule for design and final implementation of the new system?

2. b. According to the department, the purpose of the RFP is "to solicit bids from qualified professional consulting firms with experience in designing classification and compensation models, including some experience in broadbanding or gradebanding. The consultant must design, develop, install and test a revised classification and compensation model for New Jersey's 77,000 State employees and New Jersey's 108,000 local government employees."

! *Questions:* Will the revised classification and compensation system apply to local government employees? If they do not apply, please discuss why. Will public employees be able to shift seamlessly between State and local government service? Will there be additional administrative costs of operating separate classification and compensation systems? What are the administrative costs to the department/State of implementing a revised classification model, a revised compensation model and replacing the existing Performance Assessment Review (PAR) system for State employees?

3. The department has also proposed rule changes affecting layoff units, bumping rights, credit for performance, seniority and special reemployment rights for State employees. A departmental memorandum entitled "Proposed Changes to Layoff Rules" states that "these proposals cover individuals in State service only and do not affect those in local service."

Discussion Points (Cont'd)

! *Questions:* Please discuss why the rule changes affecting layoff units, bumping rights, credit for performance, seniority and special reemployment rights will not apply to local governments service. What are the consequences of establishing a bifurcated civil service system?

4. a. In anticipation of the proposed rule changes, the department states that "the PAR performance appraisal system has been upgraded to improve compliance and userfriendliness while reducing the subjectivity inherent to any assessment process. Further research indicates that different agencies have such vastly different mandates and functions that they may need to have appraisal instruments designed to meet their individual needs. Toward that end, the Division of Human Resource Management will work with local and state pilot agencies to replace the 'one-size-fits-all' PAR system with customized approaches geared toward individual and organizational development and management."

! *Questions:* What is the status of the department's efforts to upgrade and improve compliance with the performance appraisal system? What percentage of employees received performance appraisals during the past year? Can a classification and compensation system, with an emphasis on pay-for-performance, be successfully implemented if supervisors have not been conducting annual performance appraisals? What units of measurement will be used to "reduce subjectivity inherent to any assessment process"?

4. b. In order to adopt a pay-for-performance compensation system, methods to measure individual performance and the number of performance levels need to be developed. Performance appraisal systems usually have two purposes: current or recent performance evaluation, or developmental planning. Current or recent performance evaluation focuses on how the employee did as compared to expected performance or results. Developmental planning identifies specific job requirements, such as education, certifications or licenses. Before a measurement period begins, employees need to be aware of and allowed to react to the performance standards on which their appraisal will be based.

! *Questions:* Are supervisors sufficiently skilled in evaluating employee performance to implement a pay-for-performance compensation system? Have supervisors received sufficient training to ensure consistency in rating performance from one manager to the next? According to J.R. Schuster and P.K. Zingheim, the authors of The New Pay - Linking Employee and Organizational Performance, "Using three performance levels creates less opportunity for confusion and increases rater reliability." How many performance levels or categories will be used in the new performance appraisal system? Will employees be involved in the performance appraisal process? Will the appraisal system include peer review?

5. According to the department's evaluation data (Budget page D-308) the department, on average, receives 3,550 written appeals and disposes of 3,050 annually. The current backlog is 6,644 (FY 1999). Changes in the performance appraisal system and the classification and compensation system will probably result in a significant increase in the number of appeals.

! *Question:* How will the department handle a large increase in the number of appeals when the existing backlog continues to grow?

Discussion Points (Cont'd)

6. P.L.1998, c.149, enacted January 5, 1999, directs the department to establish a 24-hour, toll-free "Law Enforcement Officer Crisis Intervention Services" telephone hotline. The hotline is available to law enforcement and sheriffs' officers experiencing personal or job-related depression, anxiety, stress, or other psychological or emotional tension, trauma, pressure, or disorder. In addition to maintaining the hotline, the department trains operators and prepares a list of licensed or certified psychiatrists, psychologists and counselors who will participate in counseling. Funding for the program comes from certain monetary fines and penalties and bail forfeitures currently deposited in the Body Armor Replacement fund. The department has estimated the annual cost to be approximately \$400,000.

The Departments of Law and Public Safety and Personnel already operate roughly similar programs. The Department of Law and Public Safety operates an Employee Assistance Program. This program provides counseling services, training and crisis intervention to employees, primarily in law enforcement, with personal or job-related stress, trauma, or other psychological or emotional disorders. This program employs four full-time counselors to provide services to the department's 7,811 employees.

The Department of Personnel operates the Employee Advisory Service (EAS). This program is provided on a contract basis to State agencies and local governments. The department charges a fee and provides counseling and referrals to public employees with personal and job-related problems. The EAS program was recommended for privatization in FY 1996, however, the bids were rejected. According to the department, the nine-person counseling staff has been reduced, due to lack of funds, to five counselors.

! Questions: What is the current status of the Law Enforcement Crisis Intervention Services telephone hotline? Will the program be performed "in-house" by Department of Personnel staff or contracted out to a private vendor? How does the proposed staffing level for the Crisis Intervention hotline compare with similar Employee Assistance programs offered by private employers? Could this program be combined with the Department of Law and Public Safety program to expedite implementation and more efficiently utilize personnel?

7. P.L.1998, c.63 (effective July 30, 1998) authorized the department to increase the \$5 application fee for open competitive and promotional examinations for police and firefighter titles to \$25. Because the department estimated the 1998 fee increase would generate approximately \$1.2 million annually, the department's FY 1999 appropriation was reduced by \$1.2 million. The Governor's FY 2000 budget anticipates a decrease in revenue from all application fees for open competitive or promotional civil service examinations of \$600,000, or 35.1 percent, from \$1,709,000 estimated for FY 1999 to \$1,109,000 anticipated for FY 2000 (Budget page C-18), because actual receipts from the police and firefighter fee increase will be less than originally estimated.

! Questions: Has the number of persons applying for police and/or firefighter open competitive and promotional examinations declined as a result of the fee increase? Please provide data on the number of applicants for all open competitive and promotional examinations.

8. The department is responsible for administering an effective, efficient and comprehensive personnel system based on merit and sound management principles for State and local government employees. This system includes the recruitment, testing and placement of employees; human resource consulting; development of job classification systems; development and coordination of employee appraisal systems; approval of personnel actions; development and administration of

Discussion Points (Cont'd)

human resource information systems; and maintenance of employee records for approximately 77,000 State employees and 108,000 local government employees. The Governor's budget for the department for FY 2000 is \$28,009,000. Of this amount, \$15,163,000, is recommended for the State and Local Government Operations program.

! **Questions:** **What is the cost of overseeing the testing, selection and promotion of local government employees? What fees are collected by the department to defray the cost of providing services to local governments?**

9. Last year, the FY 1999 Budget in Brief noted that the department would seek to limit the amount of sick leave that county and municipal employees are eligible to receive upon retirement and to allow municipalities to opt out of the civil service system.

! **Question:** **What is the status of these initiatives?**

Background Paper: Pay-For-Performance

Pay-for-Performance

In theory, pay-for-performance (incentive pay or merit pay), compensates employees for actual work performed. Because there is no consensus on how to measure performance or what goes into an ideal pay-for-performance system, there is a wide variety of systems. In the private sector, compensation is frequently linked to the company track record, unit performance, team success or individual performance. Regardless of the criteria, there is usually one common element: employers offer incentives when things go well but withhold raises when things go poorly. In effect, employees are being asked to share in the risks and rewards of doing business.

Some proportion of the pay for top managers has long been tied to corporate performance. But now, a growing number of companies and government employers are asking rank-and-file workers to base a portion of their pay on performance. According to Hewitt Associates, a benefit consulting firm, about two-thirds of large and medium size companies, as of 1996, offer some kind of variable pay, such as profit sharing or bonuses. In the public sector, the federal government has adopted a pay-for-performance system for about 130,000 grade 13 through 15 managers and supervisors. The federal system, Performance Management and Recognition System (PMRS), relies on performance appraisals as the basis for pay and monetary reward decisions.

Several states have also adopted pay-for-performance. According to a United States General Accounting Office (GAO) report, dated October, 1990, 23 states use some type of pay-for-performance system for at least part of their workforce. The rewards include adjustments to base pay, one-time bonus payments, or some combination of the two. The type of pay-for-performance system adopted varies in levels of funding, methods of rewarding employees whose performance justifies additional compensation, the number of performance levels used to assess performance, and the percentage of the workforce covered by pay-for-performance.

Benefit consultants generally agree that a performance appraisal system should include the following features:

- a systematic and uniform method to evaluate an employee's job performance;
- standards and consistency among appraisers about what level of performance results is required for a rating level, such as satisfactory performance;
- identification of an employee's responsibilities, including the level of performance expected;
- feedback so employees know if they are meeting expectations;
- career goals;
- a procedure to help deal with performance problems.

The Current State Compensation System

N.J.S.A. 11A:3-7 authorizes the Commissioner of Personnel to establish and administer an equitable employee compensation plan which shall include pay schedules, standards and procedures for salary adjustments. The State Compensation Plan establishes salary ranges and steps (also referred to as increments) for every State title or position.

The current New Jersey Compensation system covers approximately 77,000 State employees and 112,000 local government employees in approximately 8,300 titles or job classifications. The titles are divided into 45 pay groups called salary ranges. Each range, in turn, is divided into 9 steps which are attained on the basis of seniority and performance. An employee's salary generally increases each year by one step, until the eighth step of the salary range is reached. The interval

Background Paper: Pay-For-Performance (Cont'd)

between the eight and ninth step is eighteen months. Occasionally, as a result of superior performance, an employee's salary increases by more than one step at a time.

The amount of increase from one step to another is called an increment. An increment, or merit increase, is 5 percent of the minimum salary, or first step, of a salary range but averages about 4.1 percent of pay over a full range for those employees eligible to receive increments. Approximately two-thirds of the State workforce have reached the ninth, and final step, of their salary range and are ineligible to receive further increments. Normally a new employee starts out at the first step of a range, although an individual's special job qualifications may merit placement at a higher step, up to the fourth step. In addition, hiring at any step up to the ninth step is occasionally authorized to meet recognized recruiting difficulties as a result of market conditions.

According to the Department of Personnel, increments are contingent on an employee receiving a satisfactory evaluation, called a Performance Assessment Review (PAR) plan. The PAR is designed to be an evaluation system for assessing the performance of employees against specific standards. The existing PAR system uses five rating levels, from significantly above standard to significantly below standard, to assess an employee's performance and determine if the employee will receive a salary increase or not.

State employees in the Senior Executive Service (SES) also have a performance-based compensation system. According to the Department of Personnel, longevity is not a factor in the SES compensation system. The system has minimum, midpoint and maximum levels with pay specifically dependent on role and performance.

Department Objectives

Although designed to reward employees for adequate and/or superior performance, the State Compensation Plan is generally perceived to reward employees based on longevity of service. The Commissioner of Personnel made the following statement in her May 9, 1996 presentation to the Assembly Appropriations Committee: "Of 36,000 employees who have received job ratings, only 142 were rated Below Average and just 44 Unsatisfactory. More than 23,000, or 64 percent of those employees rated, were rated Outstanding or Above Average."

The department's FY 1998 Budget Request stated "the State's performance appraisal system will also be upgraded to improve compliance and user-friendliness while reducing the subjectivity inherent to any assessment process . . . Toward that end, the Division of Human Resource Management will work with local and state pilot agencies to replace the 'one-size-fits-all' PAR system with customized approaches geared toward individual and organizational development and management. Ultimately, these systems can be tied to incentives to reward top public sector performers and teams."

According to the FY 2000 Budget in Brief (page 87), "The fiscal 2000 recommended Budget supports the continuing efforts of the Department's State and Local Government Operations group to consolidate job titles and thereby simplify human resource management. This work is integral to the overhaul of the salary compensation plan. The existing rigid range and step system does not lend itself to the more progressive concepts of broad banding and pay for performance. . . . Crucial to the overhaul of the State employee salary plan is the pay for performance concept, so that exceptional employees are rewarded for merit and success while still acknowledging seniority."

Background Paper: Pay-For-Performance (Cont'd)

Status of Proposed Solution

The Governor's FY 2000 budget includes a recommendation of \$800,000 for the special purpose account - Classification and Compensation Redesign. This recommendation is in addition to the \$800,000 appropriated to this account in FY 1999. According to the department, the funds will be used to hire a professional consulting firm to assist the department in the design, development, installation, and testing of a revised classification and compensation model for New Jersey's Merit System.

On September 9, 1998 (FY 1999), the department issued a Request for Proposal (RFP No. 99-X-27654) for private contractors to "solicit bids from qualified professional consulting firms with experience in designing classification and compensation models, including some experience in broadbanding and gradebanding. . . . to modify and change the current method of classifying and compensating (a modified Hay point-factor compensation system based on a time-in-grade range and step pay methodology) New Jersey's public sector workforce. As part of the Governor's Civil Service Reform Initiative, the DOP is endeavoring to develop a more flexible and proactive system of classification and compensation for State of New Jersey and local government jurisdictions protected by merit systems practices." The department is currently reviewing the responses from several private contractors.

Potential Savings From a New Classification and Compensation System

The RFP to solicit bids to design and implement a new classification and compensation system states that "Increased use of the U.S. Department of Labor data bases could result in significant savings for the State of New Jersey." The U.S. Department of Labor uses the Standard U.S. Department of Labor Occupational Classification as a framework for revising the existing Dictionary of Occupational Titles. The new Dictionary of Titles will be an automated system called Occupational Information Network. New occupational data will be added to the Occupational Information Network on a continuing basis. The ultimate goal for these initiatives is to build a national classification system that is based on common language that describes all the public and private sector jobs according to the work performed and competencies required.

A new classification system that consolidates the 8,300 State and local job titles into fewer (broadbanding) titles could possibly reduce the costs of administering the Civil Service system. The State appropriated \$15.2 million to the Division of State and Local Government Operations in FY 1999 primarily to plan, schedule and conduct examinations to generate lists of eligible candidates for employment. The number of job titles or classes of positions in the system is a major determinant of the workload of the department. As a result, classification program activities have been marked by work backlogs and processing time delays culminating in increased difficulty of appointing authorities (State and local governments) to fill vacant positions.

Broadbanding (a reduction in the number of titles) could significantly decrease the department's workload by decreasing the number of civil service titles, thus reducing the number of exams developed and advertised, tests scheduled and scored, test centers rented, test monitors hired, and lists of eligible candidates generated. Broadbanding should also establish a good occupational arrangement of titles that puts like jobs together for cross-comparison purposes and to indicate normal lines of career development. A less tangible benefit of broadbanding would be increased flexibility for managers in hiring and assigning personnel.

Background Paper: Pay-For-Performance (Cont'd)

The evaluation data, [Budget Message](#) page D-308, shows the number of job titles will be reduced by 2,200 in FY 1999 and 3,000 in FY 2000. However, no savings are anticipated in department's FY 2000 budget. The Governor's recommended appropriation of \$28,009,000, is a net increase of \$400,000, or 1.4 percent, above the FY 1999 adjusted appropriation.

Overview of Literature on Pay-For-Performance

An article entitled "Civil Service Reform: Pay-For-Performance" states that pay-for-performance systems look good to state governments because budget constraints are making it harder to give across-the-board raises. These systems reward only those who have reached certain goals and can also be used indirectly to retain good employees in government through the use of monetary incentives. In most cases, the systems reward employees through cash bonuses for their performance and productivity, however, there is no real consensus on how to measure performance or what goes into an ideal pay-for-performance system. [NCSL - Legislative Brief](#), March, 1994.

While pay-for-performance has numerous supporters, it also has many detractors. Critics contend that pay-for-performance can foster individual competition over teamwork and cause anxiety and poor morale. The consulting firm, William M. Mercer Co., has observed a growing trend away from individualized pay, with many corporations rewarding everyone in the company more equally.

The GAO noted several problems with the federal PMRS system and most state systems. The GAO noted that, "the results of PMRS have been generally disappointing." The GAO found that there is no general consensus on how best to structure a pay-for-performance system. Among states utilizing pay-for-performance, there was no clear consensus on the number of performance levels that should be used to assess employee performance. In addition, the rewards were frequently perceived by employees as being too small to act as a motivator.

J.R. Schuster and P.K. Zingheim, the authors of [New Compensation Planning Needed for Labor-Intensive Organizations](#) *Journal of Compensation and Benefits*, (1989) and [The New Pay - Linking Employee and Organizational Performance](#) (1996), found that companies using performance-based pay "are generally better financial performers as a group than TP (total pay) companies. This is not to suggest that new pay causes the financial success; rather, a relationship exists between better financial performance and the experimentation with and use of new pay. . . As a result, new pay is not likely to be the sole solution to improving performance at an individual organization."

While it is clear that virtually every eligible employee receives a "merit" increment under the current State Compensation Plan, the problem may lie in the implementation and not the system. To avoid confrontation, many managers appear to take the path of least resistance and write satisfactory evaluations for all employees. It is not clear how directly the pay-for-performance system would address this issue. One article entitled "Paying for Performance" states that the legitimacy of pay-for-performance "depends entirely on whether managers take the evaluations seriously, and whether employees feel the process is fair." [Governing](#), November, 1998, p.75.

Background Paper: Civil Service Reform Issues

REGULATORY REFORM

In her 1998 State of the State address, Governor Whitman focused on civil service reform as one of her priorities. The Governor announced that the Department of Personnel would promulgate regulatory changes to:

eliminate a practice peculiar to state government - a practice known as "bumping." Currently, every time we try to replace a mid-level manager, we have to shift as many as ten other people, some of whom lose their jobs, even though they're doing a good job right where they are. Only in government ... but no longer in New Jersey.

In early 1999, the Department of Personnel proposed regulations to implement the Governor's 1998 pronouncement. If adopted, these proposals would significantly change the operation of the civil service system. It should be noted that the proposed changes affect only State government employees and do not apply to local government employees. This bifurcation in the treatment of public employees regarding such issues as the order of layoffs and the role of seniority is, in and of itself, a significant departure from existing civil service practice.

THE ORDER OF LAYOFFS ("BUMPING")

Civil service "bumping" deals with the order of layoffs. The Civil Service Act provides the Merit System Board, located in the Department of Personnel, with a broad grant of authority concerning the layoff process and states that the board shall "adopt rules regarding the order of layoff and employee rights upon recommendation by the commissioner." (N.J.S.A.11A:8-1) Other than delegating power to the board and the commissioner, the law is silent on the order of layoffs (except in the case of veterans). Existing regulations govern layoff procedures for both State and local government civil service employees. Although legislation is not needed to revise layoff procedures, most employee contracts include layoff provisions which permit permanent employees to exercise bumping rights. Current contracts for most State employee groups expire on June 30, 1999.

! CURRENT POLICY:

Under civil service law, an appointing authority may institute layoff actions for purposes of economy, efficiency or other related reasons. Current regulations provide that the commissioner must determine seniority and designate lateral, demotional and special reemployment rights for all career service titles prior to the effective date of a layoff and must provide such information to the affected parties. In State service, the layoff unit is the department and includes all programs administered by that department. The commissioner also determines job locations within each State department. Civil service regulations provide employees with the following specific bumping rights:

A lateral title right means the right of a permanent employee to exercise displacement rights against an employee in the layoff unit holding a title determined to be the same or comparable to the affected title of the employee.

A demotional title right means the right of a permanent employee to exercise displacement rights against an employee in the layoff unit holding a title determined to be lower than, but related to, the affected title of the employee.

Background Paper: Civil Service Reform Issues (Cont'd)

A special reemployment right means the right of a permanent employee, based on his or her permanent title at the time of the layoff action, to be certified for reappointment after the layoff action to the same, a lateral or a lower title. Special reemployment lists take priority over all other reemployment lists or open competitive examination lists, and do not have an expiration date. Employees are given special reemployment rights not only to their current title but to any other title that has been designated as a title right. These special reemployment rights are not limited to a specific department but pertain to any open competitive vacancy in any department of State government.

In State service, a permanent employee in a position affected by a layoff action must be provided applicable lateral and demotional title rights first, at the employee's option within the municipality in which the facility or office is located and, second, to the job locations selected by the employee within the department. The employee must select individual job locations in preferential order from the list of all job locations and indicate those job locations at which he or she will accept lateral title rights and job locations at which he or she will accept demotional title rights.

Under existing regulations, seniority is calculated as the amount of continuous permanent service in the jurisdiction, regardless of the title. Seniority is based on total calendar years, months and days in continuous permanent service. If two or more employees have equal seniority, preference will be given to a disabled veteran over a veteran and to a veteran over a non-veteran. If two employees are still "tied" after these considerations, preference will be based on other criteria, such as which employee has the higher performance rating.

! PROPOSED CHANGES:

Under the Department of Personnel's proposed regulatory changes in State service, the layoff unit will no longer be an entire department. The layoff unit can be narrowed to only a portion of a department. In no event, however, can a layoff unit consist of a portion of a department that has less than 50 employees.

The proposed changes also introduce the concept of "merit points" in State service for the purpose of determining the order of layoffs. Merit points will be calculated based upon a combination of scores on performance appraisals (PARs) and seniority. Individuals with the most merit points would be given priority in exercising lateral or demotional title rights. The proposed regulations offer two options concerning the calculation of merit points (it has not been decided which option will be utilized):

- Option 1

1. For a layoff having an effective date period from July 1, 2000 to June 30, 2001, the employee will be given one point for each year of seniority. Points will then be added based on the final PAR rating on file in the employee's personnel office as of the date of service of the layoff notice, as follows: 20 points for a rating of Outstanding, 16 points for a rating of Commendable, and 12 points for a rating of Successful. No points will be granted for a rating of Needs Improvement or Unsatisfactory.

Background Paper: Civil Service Reform Issues (Cont'd)

2. For a layoff having an effective date period from July 1, 2001 to June 30, 2002, the employee will be given one point for each year of seniority. Points will then be added based on the average of the two most recent final PAR ratings on file in the employee's personnel office as of the date of service of the layoff notice, as follows: 20 points for a rating of Outstanding, 16 points for a rating of Commendable, and 12 points for a rating of Successful. An employee whose average rating is less than Successful will not receive any points for performance.

3. For a layoff having an effective date period from July 1, 2002 and thereafter, the employee will be given one point for each year of seniority. Points will then be added based on the average of the three most recent final PAR ratings on file in the employee's personnel office as of the date of service of the layoff notice, as follows: 20 points for a rating of Outstanding, 16 points for a rating of Commendable, and 12 points for a rating of Successful. An employee whose average rating is less than Successful will not receive any points for performance.

- Option 2

1. For a layoff having an effective date period from July 1, 2000 to June 30, 2001, the employee will be given one point for each year of seniority. Points will then be added based on the final PAR rating on file in the employee's personnel office as of the date of service of the layoff notice, as follows: 24 points for a rating of Outstanding, 18 points for a rating of Commendable, and 12 points for a rating of Successful. No points will be granted for a rating of Needs Improvement or Unsatisfactory.

2. For a layoff having an effective date period from July 1, 2001 to June 30, 2002, the employee will be given one point for each year of seniority. Points will then be added based on the average of the two most recent final PAR ratings on file in the employee's personnel office as of the date of service of the layoff notice, as follows: 24 points for a rating of Outstanding, 18 points for a rating of Commendable, and 12 points for a rating of Successful. An employee whose average rating is less than Successful will not receive any points for performance.

3. For a layoff having an effective date period from July 1, 2002 and thereafter, the employee will be given one point for each year of seniority. Points will then be added based on the average of the three most recent final PAR ratings on file in the employee's personnel office as of the date of service of the layoff notice, as follows: 24 points for a rating of Outstanding, 18 points for a rating of Commendable, and 12 points for a rating of Successful. An employee whose average rating is less than Successful will not receive any points for performance.

Both options phase in use of PARs and give one point of credit for each year of seniority, however they vary in the number of performance points that can be awarded. The thrust is the same in both options: to move away from seniority and to an increased reliance on an assessment of performance in determining the order of layoffs. Of the two, Option 2 would appear to give more weight to performance appraisals and, in so doing, reduces the value of seniority more than Option 1. Option 2 would also create greater score point range between the Outstanding, Commendable, and Successful categories.

Finally, the proposed rule change would also limit special reemployment rights to the title and the department in which the employee previously worked or to any prior title held. These rights would no longer apply to all State departments and all applicable titles; reemployment of an

Background Paper: Civil Service Reform Issues (Cont'd)

individual in another department or title would be at the appointing authority's discretion.

Two bills have been introduced, Senate, No. 1626 of 1999, introduced on January 7, 1999, and Assembly, No. 2840 of 1999, introduced on January 28, 1999, which would statutorily establish the order of layoffs and give more weight to seniority in that process than the department's proposed new layoff regulations.

STATUTORY REFORM

The Governor also proposed in her 1998 State of the State address two civil service reform initiatives which would require legislation:

We also need to put an end to taxpayer-funded "golden parachutes." We've all heard of retirees walking away with checks for hundreds of thousands of dollars in unused sick leave. Let's limit the amount of accumulated sick leave that can be paid out to retirees by local governments. We just can't afford it anymore. And then we should provide local government with greater flexibility in hiring. For example, some states appoint all new state hires to non-civil service, non-unionized positions. This may go too far for our state. But I am prepared to sign legislation that would at least allow municipalities to opt out of civil service altogether. Let's put local officials back in charge of their local work force.

! COMPENSATION FOR ACCUMULATED SICK LEAVE UPON RETIREMENT

The Civil Service Act provides State employees with supplemental compensation upon retirement for unused accumulated sick leave (N.J.S.A.11A:6-16). However, this compensation is strictly limited and is computed at the rate of one-half of the eligible State employee's daily rate of pay for each day of accumulated sick leave based upon the compensation received during the last year of employment prior to retirement and is capped at \$15,000 (N.J.S.A.11A:6-19). The law, however, does not place any computation methodology or cap for unused accumulated sick leave compensation upon retirement on local government and school board employees. News reports have indicated that there have been numerous instances on the local and school district level in which compensation upon retirement for unused accumulated sick leave by local government and school board employees has far exceeded the \$15,000 cap for State employees.

The Governor did not mention limiting compensation for unused accumulated sick leave upon retirement for local government employees in her 1999 State of the State address as she had mentioned in her 1998 address. Two bills were introduced in early 1998 to limit the payment upon retirement of such compensation: one bill would have limited supplemental compensation for accumulated unused sick leave for local government and school board employees to a maximum of \$15,000 (Senate, No. 50); the other would have limited supplemental compensation for accumulated sick leave, compensatory leave, vacation leave, personal leave, and any other type of leave for local government employees to a maximum of \$15,000 (Senate, No. 657). Both bills, however, were withdrawn shortly after introduction. Another bill, Assembly, No. 1838 of 1998, introduced on March 23, 1998, would cap supplemental compensation for unused sick leave for school administrators at \$15,000. At present, the bill is in the Assembly Education Committee. Similar bills have been introduced in the two previous legislative sessions.

Background Paper: Civil Service Reform Issues (Cont'd)

! OPTING OUT OF CIVIL SERVICE

While the Civil Service Act allows a county or municipality to join the civil service system by election (N.J.S.A.11A:9-2 and 11A:9-3), there is no provision in the law to allow a county or municipality in the system to withdraw from the system. It should be noted that not all of New Jersey's counties and municipalities are in the civil service system. Twenty of the State's 21 counties and over 200 municipalities and eight school districts have adopted Title 11A (Civil Service).

Legislation has been introduced to allow counties and municipalities to withdraw from the civil service system. Assembly, No. 851 of 1998, introduced on January 13, 1998, provides for withdrawal from the system as the result of an election in which the voters of a county or municipality decide to rescind the adoption of Title 11A (Civil Service). Similar bills had been introduced in the three previous legislative sessions. Assembly, No. 1576 of 1998, introduced also on January 13, 1998, permits counties and municipalities to withdraw from the system by an election or by having the governing body pass an ordinance to rescind the adoption of Title 11A. As of March 8, 1999, these two bills are still pending in the Assembly State Government Committee.

The Governor did not mention this initiative in her 1999 State of the State address as she had in her 1998 State of the State address.

Background Paper: State Employee Payroll Count

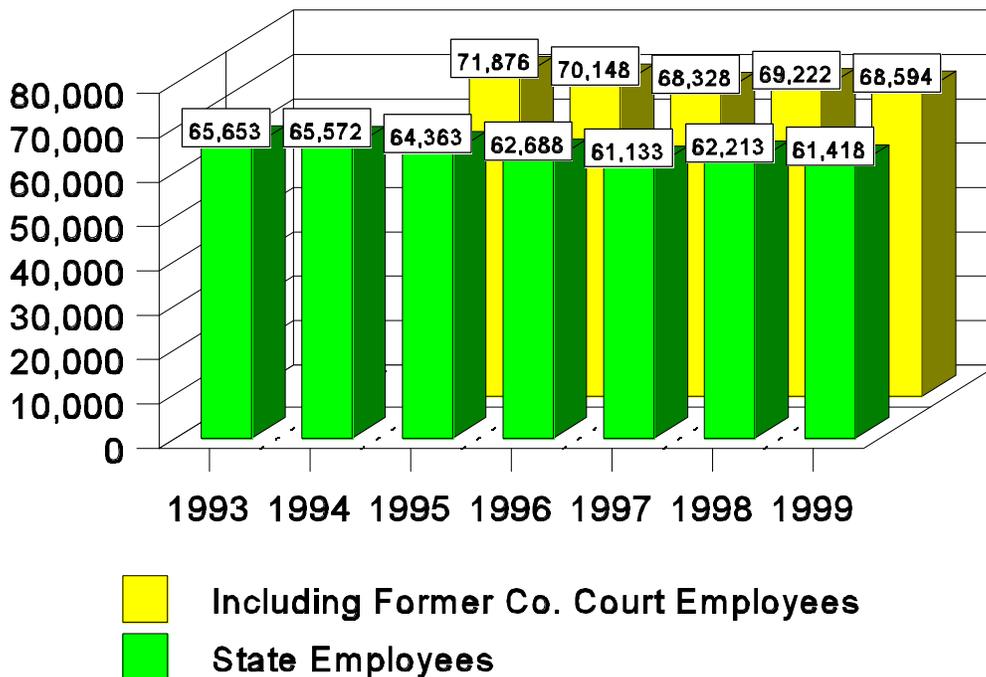
Table I below and the chart on the following page provide the State employee count from 1993 through 1999 as of January of each year. These numbers represent the actual number of checks issued to full-time State employees from all sources (i.e., State, federal or other funds). These figures do not include vacant positions, part-time positions, or higher education employees, such as employees of Rutgers University, the University of Medicine and Dentistry (UMDNJ), and the New Jersey Institute of Technology (NJIT) and the State colleges.

In January 1995, 7,513 former County Court employees were added to the State payroll system as a result of P.L. 1994, c.162, "The Judicial Employees Unification Act". Excluding the former County Court employees, the number of State employees has decreased from 65,653 in January 1993 to 61,418 in January 1999, a decrease of 4,235, or 6.5 percent.

Table I illustrates in graphic form the year to year change in the number of full-time State employees based on the number of actual checks issued.

TABLE I

Full-Time State Employees (January each year)



Background Paper: State Employee Payroll Count (Cont'd)

FULL-TIME STATE EMPLOYEE COUNT - ALL FUNDING SOURCES*

As of January 1999 (pay period 1)

Source: Office of Management and Budget, payroll reports

Department/Agency	Total	State		Federal funds	Non-State
		General Fund	Dedicated Funds		
Agriculture	239	144	0	40	55
Banking & Insurance	471	93	374	0	4
Chief Executive's Office	124	124	0	0	0
Commerce	0	0	0	0	0
Community Affairs	974	226	368	243	137
Corrections	9,258	8,788	0	34	436
-Parole Board	161	161	0	0	0
Education	870	397	33	253	187
Environmental Protection	3,085	1,997	879	134	75
Health	1,471	444	24	648	355
-Senior Services	388	225	0	145	18
Human Services	16,928	11,736	0	4,659	533
-Management and Budget	437	291	0	129	17
-Medical Assistance	486	140	0	346	0
-Economic Assistance	389	229	0	160	0
-Commission for the Blind	272	181	0	91	0
-DYFS	3,047	2,423	0	597	27
-Div of the Deaf	5	5	0	0	0
-Developmental Disabilities	8,157	4,368	0	3,334	455
-Mental Health Services	4,135	4,099	0	2	34
Labor	3,624	177	450	2,990	7
-PERC	39	39	0	0	0
Law and Public Safety	6,486	4,210	799	110	1,367
-ELEC	44	44	0	0	0
-VCCB	47	47	0	0	0
-ECES	6	6	0	0	0
-Juvenile Justice	1,423	1,025	0	31	367
Military and Veterans' Affairs	1,366	1,218	0	148	0
Personnel	409	406	0	0	3
State	165	103	7	2	53
-Comm on Higher Education	20	20	0	0	0
-PBA	133	103	0	0	30
Transportation	3,815	2,726	0	1,089	0
-DMV	1,299	1,102	118	79	0
Treasury - (Balance of)	3,476	3,037	0	0	439
-Casino Control	336	0	0	0	336
-Comm. & Econ. Growth Com.	108	100	0	0	8
-Displaced Workers Pool	4	4	0	0	0
-OAL	114	104	0	0	10
-OIT	994	0	0	0	994
-Public Defender	862	860	0	0	2
-Sci & Tech	4	4	0	0	0
-Student Assistance	198	30	0	158	10
-BPU	298	0	281	17	0
-Misc. Exec. Commissions	2	2	0	0	0
Sub-Total	59,241	39,702	3,333	10,780	5,426
Legislature	471	471	0	0	0
Judiciary	1,706	1,464	0	74	168
Statewide Total	61,418	41,637	3,333	10,854	5,594
County Court	7,176	6,062	0	1,105	9
Grand Total	68,594	47,699	3,333	11,959	5,603

* Number of Employees That Received Pay Checks

Excludes special services and summer seasonal for all agencies except Human Services, which includes full-time special services.

Excludes college and university employees.

Background Paper: Comparison of Employee Benefit

The New Jersey Employer-Employee Relations Act (N.J.S.A. 34:13A-1 et seq.) guarantees public employees the right to collective bargaining. According to the Office of Management and Budget's Payroll Position System, as of January 1999 (pay period 1), there were 68,594 full-time employees paid through the State payroll system. This number includes the Legislature (471), Judiciary (1,706) and County Court (7,176) employees. This figure does not include employees of Rutgers, the State University; the University of Medicine and Dentistry of New Jersey (UMDNJ); the New Jersey Institute of Technology (NJIT); and the nine State colleges which are not included in the State payroll system. Of the 68,594 State employees on the payroll system, approximately 63,000 are represented by authorized employee organizations.

Although the Employer-Employee Relations Act guarantees public employees the right to collective bargaining, many employee benefits are established by statute. Attached is a table comparing the employee benefits mandated by law versus the collective bargaining agreement with the Communications Workers of America (CWA), the union representing most State employees.

The State is in the final year of four-year contracts expiring June 30, 1999, with the Communications Workers of America (CWA), the American Federation of State, County, and Municipal Employees (AFSCME), the International Federation of Professional and Technical Engineers (IFPTE) and the Policemen's Benevolent Association (PBA).

Background Paper: Comparison of Employee Benefit (Cont'd)

COMPARISON OF EMPLOYEE BENEFITS
 MANDATED BY LAW vs. THE CWA COLLECTIVE
 BARGAINING AGREEMENT
 7/1/95 - 6/30/99

<u>EMPLOYEE BENEFIT</u>	<u>LAW</u>	<u>COLLECTIVE BARGAINING AGREEMENT</u>
Health Benefits	NJSA 52:14-17.25 et seq. New Jersey Health Benefits Program (SHBP)	Article XX Health Benefits Program The program is applicable to employees covered by contract.
Coverages	NJSA 52:17-14.29 establishes basic coverages, employee deductible \$100 per year, co-insurance of 80% of first \$2,000 of eligible charges and 100% reimbursement thereafter. NJSA 26:2J-1 et seq. Health Maintenance Organizations (HMOs)	Article XX (A) (1) Employees may enroll in Traditional Indemnity - Blue Cross/Blue Shield, series "1420" plan, including Rider "J", and Major Medical Benefits; NJ Plus; or an approved Health Maintenance Organization (HMO).

Background Paper: Comparison of Employee Benefit (Cont'd)

<p>Premiums</p>	<p>NJSA 52:14-17.28b. The obligation of the State to pay the premium for health benefits coverage may be determined by collective bargaining (employee contracts).</p> <p>The State may impose the terms of any collective bargaining agreement on employees for whom there is no union representation.</p>	<p>Article XX (A) (2) The NJ Plus and approved HMOs are free to eligible employees and their dependents. If both spouses are active State employees and eligible to participate in the SHBP, the couple may choose only one family policy.</p> <p>For employees electing Traditional Coverage: Effective July 1, 1996, all new employees pay the difference between the cost of Traditional Coverage and the average of the cost of NJ Plus and HMOs.</p> <p>Effective July 1, 1997, employees hired before the ratification of the contract with a base salary of \$40,000 or more will pay the difference between the cost of Traditional Coverage and the average of the cost of NJ Plus and HMOs.</p> <p>Employees hired before ratification of the contract with a base salary of less than \$40,000 pay 1% of their base pay, but not less than \$20 per month if they select Traditional Coverage.</p>
<p>Prescription Drug Program</p>	<p>NJSA 52:14-17.29 (F). The commission may purchase a contract to provide drug prescription and other health care benefits as may be required to implement a duly executed collective negotiations agreement or as may be required to implement a determination by a public employer to provide such benefit or benefits to employees not included in collective units.</p>	<p>Article XX (B) Prescription Drug Program The State is to continue the program for eligible State employees and their dependents.</p>
<p>Deductible/co-payment</p>		<p>Article XX (B) Prescription Drug Program Each prescription required by competent medical authority for Federal legend drugs shall be paid for by the State from funds provided for the Program subject to a deductible provision which shall not exceed \$5 per prescription or renewal.</p>

Background Paper: Comparison of Employee Benefit (Cont'd)

<p>Post Retirement Medical Coverage</p>	<p>NJSA 52:14-17.32, 52:14-17.28b. The State shall pay the premium or periodic charges for the benefits provided to a retired State employee and dependents covered under the program, but not including survivors, if such employee retired from a State-administered retirement system with 25 or more years of service credit.</p> <p>For employees who accrue 25 years of service by July 1, 1997, the State will pay the full cost of the Health Benefits coverage, including reimbursement of Part B of the Federal Medicare Program, for employee and their dependents, but not including survivors.</p> <p>Employees who accrue 25 years of service after July 1, 1997 are subject to the contractual provisions governing health benefits for retirees, and will receive Medicare Part B reimbursement after retirement in accordance with contractual provisions.</p>	<p>Article XXI Health Insurance in Retirement For employees who accrue 25 years of service by July 1, 1997, the State will pay the full cost of the Health Benefits coverage, including reimbursement of Part B of the Federal Medicare Program, for employee and their dependents, but not including survivors.</p> <p>Employees who accrue 25 years of service after July 1, 1997 are subject to the contractual provisions governing health benefits for retirees, and will receive Medicare Part B reimbursement after retirement up to a cap of \$46.10 per month.</p> <p>Employees hired after June 30, 1995 will not receive any reimbursement for Medicare Part B after retirement.</p>
<p>Dental Care Program</p>	<p>NJSA 52:14-17.29 (F) The State Health Benefits Commission must purchase contracts to provide drug prescription and other lesser health care benefits (above and beyond basic health care coverages) to comply with collective bargaining agreements.</p>	<p>Article VI (c) Dental Care Plan The program is voluntary. Under Traditional Coverage the cost is shared between the employee (50% of the cost of coverage) and the State, and each year the employee and dependents must satisfy the specified deductible (\$25), after which the insurance will pay 80% of additional eligible charges. An optional Group Dental program for services through specific dental clinics is available.</p>
<p>Eye Care Program</p>	<p>NJSA 52:14-17.29 (F) The State Health Benefits Commission must purchase contracts to provide drug prescription and other lesser health care benefits (above and beyond basic health care coverages) to comply with collective bargaining agreements.</p>	<p>Article VI (D) Eye Care Program The program provides a \$35 reimbursement for regular prescription glasses or \$40 for bifocal or more complex glasses and \$35 reimbursement for an eye examination. These payments are available every two years.</p>

Background Paper: Comparison of Employee Benefit (Cont'd)

Vacation Leave	<p>NJSA 11A:6-2. Vacation Leave</p> <ul style="list-style-type: none"> a) 1 vacation day for each month during first calendar year of employment b) 12 days from one to five years of service c) 15 days from six to twelve years of service d) 20 days from thirteen to twenty years of service e) 25 days after twenty years of service f) one year of credited vacation leave may be carried forward into the next succeeding year. 	<p>Article XXII (G) Same as provided by law (NJSA 11A:6-2).</p>
Administrative Leave	<p>NJSA 11A:6-6. State administrative leave for personal reasons shall be three (3) days per calendar year. Administrative leave is not cumulative and unused leave will be canceled at the end of any year.</p>	<p>Article XXII (A) Same as provided by law (NJSA 11A:6-6).</p>
Sick Leave	<p>NJSA 11A:6-5. Sick leave credit of one day per month during first calendar year of service and 15 days per year every year thereafter. Unused sick leave accumulates without limit.</p>	<p>Article XXII (F) Same as provided by law (NJSA 11A:6-5).</p>
Unused Sick Leave - Retirement	<p>NJSA 11A:6-16. State employees are entitled upon retirement to receive supplemental compensation for any earned and unused accumulated sick leave.</p> <p>NJSA 11A:6-19. Supplemental compensation is computed at the rate of one-half of the employee's daily rate of pay for each day of accumulated sick leave based on the employee's salary at the time of retirement up to a maximum of \$15,000.</p>	<p>Article XXII (F) (10) Same as provided by law (NJSA 11A:6-16 & 19).</p> <p>Article XXII (F) (10) (b) Same as provided by law (NJSA 11A:6-19).</p>
Sick Leave Injury (SLI)	<p>NJSA 11A:6-8. Sick Leave Injury in State Service. Up to one year of leave with full salary and benefits is provided to employees with work-related injuries, plus payment of medical expenses.</p>	<p>Article XXII (C) Same as provided by law (NJSA 11A:6-8).</p>

Background Paper: Comparison of Employee Benefit (Cont'd)

<p>State Paid Holidays</p>	<p>NJSA 36:1-1 Thirteen legal holidays are established. In addition, State employees have received the day after Thanksgiving Day by proclamation.</p>	<p>Article XVII Holidays Thirteen official paid holidays are recognized under the terms of this agreement. In addition, the State will grant a holiday when the Governor declares a holiday by proclamation (day after Thanksgiving Day).</p>
<p>Compensation Plan Increments or merit increases</p>	<p>NJSA 11A:3-7. Employee Compensation The Commissioner of Personnel shall establish and administer an equitable State employee compensation plan which shall include pay schedules and standards and procedures for salary adjustments.</p> <p>[The employee compensation plan establishes salary ranges, number of steps (also referred to as increments) in each salary range and the size of each increment (5% of the first step of each range) for each job title].</p>	<p>Article VI (A) Compensation Plan and Program (3) The State Compensation Plan salary schedule shall be adjusted in accordance with established procedures to incorporate cost-of-living adjustments for each step of each salary range.</p> <p>(4) Normal increments shall be paid to all employees eligible for such increments within the policies of the State Compensation Plan during the term of the contract.</p> <p>(5) Employees who have been at the eighth step of the same range for 18 months or longer are eligible for movement to the ninth step if performance warrants the adjustment.</p>
<p>Salary Program or Cost-of-Living Adjustment (COLA)</p>		<p>Article VI (A) Special Salary Program July 1, 1995 to June 30, 1999 After a 24 month wage freeze: April 1997 (FY 1997) \$250 bonus July 1997 (FY 1998) \$840 COLA (avg. 2%) January 1998 (FY 1998) \$420 COLA (avg. 1%) July 1998 (FY 1999) \$840 COLA (avg. 2%) January 1999 (FY 1999) \$525 COLA (avg 1.25%)</p>
<p>Clothing Allowance</p>		<p>Article VI (B) The clothing allowance is paid to full-time employees serving in titles in which the employees are required to wear special clothing or uniforms. \$550 July 1, 1995 (FY 1996) \$550 July 1, 1996 (FY 1997) \$550 July 1, 1997 (FY 1998) \$550 July 1, 1998 (FY 1999)</p>

Background Paper: Comparison of Employee Benefit (Cont'd)

<p>Bonus Payment for Second & Third Shifts</p>		<p>Article VI (H) There shall be a bonus payment of \$240 in December 1995, 1996, 1997, 1998 to all full-time employees who worked at least 195 shifts on either the second and/or third shift, which are commonly known as the afternoon or evening shift and the night or midnight shift.</p> <p>Full-time employees in positions requiring shift rotation will receive a bonus payment of \$240 in December 1995, 1996, 1997, 1998 if at least 170 shifts are on either the second and/or third shift.</p>
<p>Salary Adjustment for Nurses and Teachers</p>		<p>Article VI (I) The two-range increase negotiated in the 1989/1992 contract for nurses and classroom teachers/instructor and in the 1992/1995 contract for teachers who supervise other teachers (i.e., shall have their salary increased two ranges) shall continue in effect under this contract.</p>
<p>Hours of Work and Overtime</p>	<p>NJSA 11A:6-24. Hours of Work, Overtime and Holiday pay Overtime and holiday compensation shall be either cash salary or compensatory time off at a rate of 1 1/2 hours of each hour worked beyond the regular workweek.</p>	<p>Article VIII (A) Hours and Overtime 1. The number of hours in the workweek for each job classification within the unit shall be consistent with its present designation in the State Compensation Plan.</p> <p>(B) Rest and Lunch Period 1. The work schedule shall provide a fifteen (15) minute rest period during each one-half shift. 3. The normal schedule shall include a provision for unpaid lunch period (minimum of one-half hour) during the mid-portion of the work day.</p> <p>(C) Overtime 1. Employees shall be compensated at the rate of time and one-half for overtime hours in excess of the normal hours of the established workweek.</p>

Background Paper: Comparison of Employee Benefit (Cont'd)

<p>Retirement Benefits</p>	<p>Almost every State employee is a member of a State-administered retirement system. The State administers seven major retirement systems: the Public Employees' Retirement System (PERS), the Teachers' Pension and Annuity Fund (TPAF), the Police and Firemen's Retirement System (PFRS), the State Police Retirement System (SPRS), the Judicial Retirement System (JRS), the Prison Officers' Pension Fund (POPF) and the Consolidated Police and Firemen's Pension Fund (CP&FPF). An eighth retirement program, the Alternate Benefit Program (TIAA/CREF), is available for faculty members of institutions of higher education. Most State employees are enrolled in PERS.</p>	<p>Article XIX Retirement Benefits Eligibility for participation by employees in State-administered retirement systems are governed by statute. The statutes or the rules and regulations promulgated by the Division of Pensions and Benefits also establish the actual retirement benefits.</p>
<p>Employee Performance Evaluations</p>	<p>NJSA 11A:6-28. Employee Performance Evaluations The commissioner shall establish an employee evaluation system.</p>	<p>Article XVI Performance Assessment Review (A) State will maintain a performance assessment review system to include a formal process whereby the employee and his supervisor mutually formulate performance and improvement goals and work standards appropriate to the job. (B) Formal written evaluation and rating of each employee completed annually will be the basis for granting a normal merit increment.</p>
<p>Seniority</p>		<p>Article XXVII Seniority Seniority is the accumulated period of service of a permanent employee. (Permanent status is attained upon the completion of the probationary period or working test period.</p>

Background Paper: Comparison of Employee Benefit (Cont'd)

<p>Employee Layoff Rights</p>	<p>NJSA 11A:8-1 Layoff The Merit System Board adopts rules regarding the order of layoffs and employee rights upon the recommendation of the Commission of Personnel. Existing rules establish types of layoff rights (lateral, demotional and special reemployment); define seniority as continuous permanent service in a current or similar permanent title; and establish a minimum 45-day layoff notice for permanent employees.</p>	<p>Article XXVIII Layoff and Recall - Career Service</p> <p>Article XXIX Layoff and Recall for Unclassified and Provisional Employees The union is to be notified as far in advance as possible of layoffs and provided with seniority lists and grids for directly affected employees or relevant data concerning the layoffs. A minimum 45-day layoff notice for permanent employees is required</p> <p>The union is to be notified of the layoff as far in advance as possible and provided with relevant data concerning the layoff. A minimum 45-day generalized layoff notice is to be given to affected employees.</p>
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Individuals wishing information and committee schedules on the FY 2000 budget are encouraged to contact:

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