

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES**

Agenda Item Summary Sheet

Committee: Human Resources Committee **Date of Meeting:** January 18, 2011

Agenda Item: Performance Pay Discussion

- Proposed Policy Change Approvals Required by Policy Other Approvals Monitoring
- Information

Cite policy requirement, or explain why item is on the Board agenda:

The Board of Trustees must decide whether to continue the pay for performance compensation strategy in the coming years.

Scheduled Presenter(s):

Lori Lamb, Vice Chancellor for Human Resources

Outline of Key Points:

- Whether pay for performance will continue into the future

Background Information:

The background was presented in detail as an information item at the September 2010 Human Resources Committee meeting.

1 **BOARD OF TRUSTEES**
2 **MINNESOTA STATE COLLEGES AND UNIVERSITIES**
3

BOARD ACTION

PAY FOR PERFORMANCE

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6 **BACKGROUND:**

7 This was presented as an information item at the September 2010 Human Resources Committee
8 meeting. More complete detail is provided in the materials for that meeting.
9

10 Legislative History

11 The Legislature has established a requirement that each state employee shall be evaluated and
12 counseled on work performance at least once a year. In addition, all individual pay increases for
13 employees not represented by exclusive representatives shall be based on the performance evaluation.
14 Minn. Stat. § 43A.20
15

16 The Personnel Plan for Minnesota State Colleges and Universities Administrators does not provide
17 for across-the-board salary adjustments. All increases have historically been in variable amounts at
18 the discretion of the appointing authority and based on individual performance in the prior year. The
19 Personnel Plan for FY2010-2011 suspended all base salary increases other than those provided in
20 chancellor, vice chancellor and president employment agreements.
21

22 In the 2000 legislative session, the Legislature modified compensation for system administrators in
23 several ways. First, Minn. Stat. ch.15A, which generally governs the salaries of agency heads, was
24 modified to give the Board of Trustees the power to establish the salary of the Chancellor within a
25 salary range approved by the Legislative Coordinating Commission's Subcommittee on Employee
26 Relations. Minn. Stat. §15A.081. Second, Minn.Stat. § 136F.40 was modified to allow the Board to
27 enter into employment contracts with the Chancellor and the presidents. The law allows the Board to
28 provide "other compensation" to the Chancellor and presidents. Laws of Minnesota 2000, Chapter
29 453.
30

31 On July 21, 2000, the Legislative Subcommittee on Employee Relations approved an amendment to
32 the Personnel Plan. This amendment reflected statutory changes providing for employment contracts,
33 and providing for additional remuneration of up to 30 percent of base salary for administrators under
34 contract. This additional remuneration has consisted of housing allowances for the Chancellor and
35 state university presidents, a transportation/communication allowance for the Chancellor and all
36 presidents, and more recently, performance pay.
37

38 In the Special Session of 2001, the legislature again amended Minn. Stat. § 136F.40 to allow
39 employment contracts with vice chancellors.
40

41 Performance Pay Background

42 Administrators, including the Chancellor, presidents and vice chancellors, historically have been paid
43 on a performance-based model. That is, they have always been paid as a "look back" for past

1 performance. This is embodied in the “merit pool” funds in prior years and the performance
2 incentives currently in place for contracted administrators. This means that any increases are paid to
3 administrators in the year following the period in which they are earned. For example, for
4 performance in FY08, administrators received payments at the beginning of FY09. This allows for an
5 assessment of prior performance before the award of any remuneration increases and allows for
6 remuneration to be proportional to actual performance.

7
8 This pay practice is in contrast with the traditional pay strategy for bargaining unit employees where
9 negotiated increases take place on the first day of a fiscal year. Thus, bargaining unit employees
10 receive increases contemporaneously with the work they perform; with the pay increases coming in
11 the form of predetermined step increases (employees who are at the maximum rate for their pay range
12 do not receive step increases).

13
14 The Chancellor’s employment contract originally provided for an annual incentive payment that,
15 when combined with his housing allowance and transportation allowance, would bring his total
16 additional remuneration up to the 30 percent limit provided in the Personnel Plan approved by the
17 Legislature. In 2008 and 2009, the Board of Trustees and the Chancellor agreed to new employment
18 contracts that put his additional remuneration more at risk by making payment of the incentive
19 optional up to a maximum amount, depending on performance. At present, the incentive amount in
20 the Chancellor’s contract is up to \$50,000 per year.

21
22 Beginning in FY03, the employment contracts provided each president and vice chancellor the
23 opportunity to earn a performance-based lump sum payment of \$2,000 each fiscal year. These
24 amounts were paid for FY 2003 through FY 2008.

25
26 In 2008, the Board of Trustees instructed the Chancellor to negotiate addenda to the presidents’
27 contracts providing for larger performance incentives, but introducing more risk. Those addenda
28 provide generally for performance increases up to \$15,000 per fiscal year. The incentive is not
29 guaranteed; a president or vice chancellor may not receive any performance incentive. In addition, a
30 rigorous process was implemented to assess the performance of the presidents and vice chancellors to
31 insure their performance warranted the potential incentive payment. These performance incentive
32 payments are one-time funds and do not constitute base salary adjustments.

33 **RECOMMENDED COMMITTEE ACTION:**

34 (To be determined)

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36 **RECOMMENDED MOTION:**

37 (To be determined)

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40 *Date of Adoption:* January 19, 2011

41 *Date of Implementation:* January 19, 2011

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