

SB

2017

COMMITTEE REPORT  
SENATE

FURTHER: FINANCE

3/1/85

Date 03/14/85

Mr. President

The Committee on STATE AFFAIRS considered SB 207  
relating to public employees; efd.

and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass
- do pass with attached amendment(s)
- replace with/or adopt CS for \_\_\_\_\_
- new title \_\_\_\_\_
- same title and recommends \_\_\_\_\_
- and attached a "LETTER OF INTENT"  NEW FISCAL NOTE
- reports it back without recommendation
- recommends referral to \_\_\_\_\_ Committee

MEMBERS SIGNING  
DO PASS

Frank De Vries  
Tom Kelly  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

MEMBERS HAVING  
OTHER RECOMMENDATIONS

Missler - NO REC  
Until Constitutional  
Questions Resolved  
Bill May NOT PASS in  
form it leaves STATE AFFAIRS  
 \_\_\_\_\_  
 \_\_\_\_\_

[Signature]  
 Chairman  
[Signature]  
 Chairman recommendation

Introduced: 3/1/85  
Referred: State Affairs  
and Finance

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2

SENATE BILL NO. 207

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6

For an Act entitled: "An Act relating to public employees; and providing

7

for an effective date."

8

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

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\* Section 1. AS 23.40.210 is amended to read:

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Sec. 23.40.210. AGREEMENT. Upon the completion of negotiations

11

between an organization and a public employer, if a settlement is

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reached, the employer shall reduce it to writing in the form of an

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agreement. The agreement may include a term for which it will remain

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in effect, not to exceed three years. The agreement shall include a

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pay plan designed to provide for a cost-of-living differential between

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the salaries paid employees residing in the state and employees resid-

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ing outside the state. The cost-of-living differential or other

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geographic cost-of-living adjustment may not be considered part of the

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basic salary for purposes of calculating overtime compensation or

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other salary adjustments. The plan shall provide that the salaries

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paid, as of August 26, 1977, to employees residing outside the state

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shall remain unchanged until the difference between those salaries and

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the salaries paid employees residing in the state reflects the differ-

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ence between the cost of living in Alaska and living in Seattle,

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Washington. The agreement shall include a grievance procedure which

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shall have binding arbitration as its final step. Either party to the

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agreement has a right of action to enforce the agreement by petition

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to the labor relations agency.

29

\* Sec. 2. AS 39.27.020 is amended by adding a new subsection to read:

1 (d) If an employee's basic annual salary is no more than  
2 \$30,000, the pay step differential shall be calculated using the  
3 employee's basic salary. If the employee's basic annual salary is  
4 greater than \$30,000, then the employee's pay step differential shall  
5 be calculated on the differential for a basic salary of \$30,000.

6 \* Sec. 3. AS 39.27 is amended by adding a new section to read:

7 Sec. 39.27.027. OVERTIME COMPENSATION. Overtime compensation  
8 shall be calculated on the basic salary of an employee before the  
9 addition of any adjustments including pay step differentials and shift  
10 differentials.

11 \* Sec. 4. AS 39.35 is amended by adding a new section to read:

12 Sec. 39.35.675. INCLUSION OF COST-OF-LIVING DIFFERENTIALS IN  
13 COMPENSATION AND BENEFITS. (a) An employee shall make contributions  
14 to the system based on compensation including a cost-of-living differ-  
15 ential.

16 (b) The amount of a cost-of-living differential may not be in-  
17 cluded in the employee's compensation for purposes of calculating  
18 benefits under this chapter unless the employee has received a cost-  
19 of-living differential in a comparable amount or of at least that many  
20 steps for at least 50 percent of the employee's credited service.

21 (c) When an employee receives a benefit, and if the employee's  
22 compensation for purposes of calculating the benefit does not include  
23 a cost-of-living differential, then the administrator shall refund to  
24 the employee the amount of contributions the employee made based on  
25 the differential.

26 (d) In this section "cost-of-living differential" means an  
27 adjustment to salary based on the cost of living in the geographic  
28 region where the employee works and includes a pay step differential  
29 under AS 39.27.020.



1 \* Sec. 5. AS 39.35.680(8) is amended to read:

2 (8) "compensation" means the total remuneration earned by  
3 an employee for personal services rendered, including cost-of-living  
4 differentials only as provided in AS 39.35.675, payments for leave  
5 that is actually used by the employee, the amount by which the em-  
6 ployee's wages are reduced under AS 39.30.150(c), and any amount  
7 deferred under an employer-sponsored deferred compensation plan, but  
8 does not include retirement benefits, welfare benefits, per diem,  
9 expense allowances, workers' compensation payments or payments for  
10 leave not used by the employee whether those leave payments are sched-  
11 uled payments, lump-sum payments, donations, or cash-ins;

12 \* Sec. 6. (a) Unless the budget specifically provides or the legisla-  
13 ture approves, the state may not *increase the salary range and*

14 (1) reclassify a position; *to a higher salary range*

15 (2) change the salary range of a job class unless the change is *what*  
16 required to comply with AS 18.80.220(a)(5); *state*

✓ 17 (3) promote a person to the next step of a flexibly staffed  
18 position if the person was first hired in the flexibly-staffed position  
19 after the effective date of this section; or

20 ✓ (4) award a person a merit increase.

21 (b) In this section, "state" means the executive, legislative and  
22 judicial branches of state government and includes the University of  
23 Alaska. *Sec 7 & remember*

24 \* Sec. 7. The amendments made by secs. 4 and 5 of this Act apply only  
25 to members first hired under the Public Employees' Retirement System on or  
26 after the effective date of secs. 4 and 5 of this Act.

27 \* Sec. 8. Nothing in this Act terminates or modifies a collective  
28 bargaining agreement in existence on the effective date of secs. 1, 3 and  
29 6 - 7 of this Act.

*4/2nd*  
1 \* Sec. 9. Section ~~8~~ of this Act takes effect January 1, 1987.

2 \* Sec. 10. Sections 1, ~~3~~ and ~~5~~ - 7 of this Act take effect immediately

3 in accordance with AS 01.10.070(c).

# Alaska State Legislature

SENATOR

**John C. Sackett**

CO-CHAIRMAN  
SENATE FINANCE COMMITTEE

MEMBER

LABOR & COMMERCE COMMITTEE  
BUDGET & AUDIT COMMITTEE  
SENATE ADVISORY COUNCIL  
COMMITTEE ON COMMITTEES



**Senate**

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JUNEAU, ALASKA 99811  
TELEPHONE 465-3753

ANCHORAGE  
TELEPHONE 272-3404

## MEMORANDUM

Date: Friday, March 1, 1985

To: Senator Mitch Abood  
Chair - State Affairs Committee

From: Senator John Sackett  
Co-Chair, Senate Finance *JCS*

Subj: SB-207, an Act relating to public employees

SB-207, introduced today, is designed to limit further increases in state employee salaries and to curb some of the escalating benefits and geographical cost-of-living differentials enjoyed by some employees. This bill is another effort to hold the line on state spending because of our reduced revenue forecasts.

I would request that you schedule the bill as soon as possible so that it can be given a hearing in your committee and then in Senate Finance.

Thank you.

**RECEIVED**  
MAR 1 1985

*sponsor's back-up stmts*

STATE OF ALASKA 1985 LEGISLATIVE SESSION  
FISCAL NOTE

Revision Date: \_\_\_\_\_

Page 1 of 2

REQUEST

Bill/Resolution No.: SB 207  
 Title: "An Act relating to public employees; and providing..."  
 Sponsor: Finance Committee  
 Requestor: State Affairs  
 Date of Request: 3/1/85

FISCAL DETAIL

Agency Affected: Department of Administration  
 Program Category Affected: Labor Services  
 BRU, Program or Subprogram(s) Affected: PERS

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
Operating						
100 Personal Svcs						
100 Rtmnt & Bnfts		[10.9]	[11.8]	[12.7]	[13.7]	[14.8]
200 Travel						
300 Contractual		13.1	14.1	15.3	16.5	17.8
400 Supplies						
500 Equipment						
600 Land & Struct						
700 Grants, Claims						
700 TRS Match						
TOTAL OPERATING	-0-	2.2	2.3	2.6	2.8	3.0
CAPITAL		36.0				
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND		[ 9.9]	[10.7]	[11.5]	[12.5]	[13.5]
FEDERAL FUNDS		[ .5]	[ .5]	[ .6]	[ .6]	[ .7]
OTHER		48.6	13.5	14.7	15.9	17.2
TOTAL	-0-	38.2	2.3	2.6	2.8	3.0

POSITIONS:

	-0-	-0-	-0-	-0-	-0-	-0-
FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

Prepared By: J.K. Humphreys, Director  
 Division: Retirement & Benefits

Phone: 465-4470

Date: 3/13/85

Approved by Commissioner: Lisa Rudd  
 Agency: Department of Administration

Date: 3-13-85

Distribution (by Agency preparing fiscal note):

Legislative Finance  
 Legislative Sponsor  
 Requestor  
 Office of Management and Budget  
 Impacted Agency(ies)

*fn dept of adm, Div. of Retirement* Rev. 7/1/84

Senate Bill 207  
 Fiscal Note Analysis  
 Prepared by Division of Retirement & Benefits  
 Department of Administration  
 March 13, 1985

IV Analysis: With passage, sections four and five of this bill would prohibit the three highest consecutive years salary, used for benefit calculation in the Public Employees' Retirement System (PERS), to include any area cost-of-living adjustment if the member has not received an area cost-of-living differential during at least 50 percent of the members credited service. The bill would also provide for refunding any contributions paid on area-differentials if the salaries used for benefit calculation do not include area-differential.

It is estimated that this bill would result in a .002% reduction in the State contribution rate in the PERS. We also estimate that the computer system enhancements needed would result in a one year \$36,000 FY 86 cost and a cost of \$13,100 for FY 86 maintenance. The costs are estimated to increase by 8% each year.

The \$38.2 FY 86 costs are calculated as follows:

The estimated decrease in FY 86 State contribution rate (.002%) times the FY 86 estimated state payroll (\$544,046,592)	[\$10.9]
Plus the estimated FY 86 system maintenance costs	\$13.1
Plus the estimated one year FY 86 system enhancement costs	<u>\$36.0</u>
Total FY 86 estimated costs	<u><u>\$38.2</u></u>

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**STATE OF ALASKA 1985 LEGISLATIVE SESSION  
FISCAL NOTE**

Revision Date: \_\_\_\_\_

Page 1 of 4

**REQUEST**

Bill/Resolution No.: SB 207  
 Title: An Act relating to public employees  
 Sponsor: Senate Finance  
 Requestor: Senate State Affairs  
 Date of Request: March 12, 1985

**FISCAL DETAIL**

Agency Affected: Administration  
 Program Category Affected: Finance  
 BRU, Program or Subprogram(s) Affected: \_\_\_\_\_

**EXPENDITURES/REVENUES: (Thousands of Dollars)**

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
<b>OPERATING</b>						
100 PERSONAL SERVICES	0	359.0	45.0	45.0	45.0	45.0
200 TRAVEL	0	0	0	0	0	0
300 CONTRACTUAL	0	0	0	0	0	0
400 SUPPLIES	0	0	0	0	0	0
500 EQUIPMENT	0	0	0	0	0	0
600 LAND & STRUCTURES	0	0	0	0	0	0
700 GRANTS, CLAIMS	0	0	0	0	0	0
800 MISCELLANEOUS	0	0	0	0	0	0
<b>TOTAL OPERATING</b>	0	359.0	45.0	45.0	45.0	45.0
<b>CAPITAL</b>	0	0	0	0	0	0
<b>REVENUE</b>	0	0	0	0	0	0

**FUNDING: (Thousands of Dollars)**

GENERAL FUND	0	359.0	45.0	45.0	45.0	45.0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
<b>TOTAL</b>	0	359.0	45.0	45.0	45.0	45.0

**POSITIONS:**

FULL-TIME	0	6	1	1	1	1
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

**ANALYSIS: (Attach a separate page if necessary)**

Prepared By: Ken Bischoff *KB* Phone: 465-2240  
 Division: Finance Date: March 13, 1985

Approved by Commissioner: Lisa Rudd *L. Rudd* Date: 3-13-85  
 Agency: Department of Administration

Distribution (by Agency preparing fiscal note): *for*

Legislative Finance  
 Legislative Sponsor  
 Requestor: *for Dept of Adm, DW FID.*  
 Office of Management and Budget  
 Impacted Agency(ies)

201

Fiscal Note  
SB 207

Cost Calculation Summary:

One Time Costs

3 Journey level programmers 1 yr.	190.0
Admin Manual Update 6 employee months	31.0
Agency Training course development and Administering 6 employee months	31.0
Finance Participation in Coordination effort with all other affected groups (Personnel, Labor Relations, Retirement, Law unions) 12 employee months	<u>62.0</u>
	<u>314.0</u>

Ongoing Costs

Additional Manual Effort due to changes in  
benefit calculation

1 position Range 16	45.0
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## Additional Fiscal Note Analysis

This bill as it applies to the Division of Finance would impact us significantly as certain provisions change fundamental concepts about the methods the state uses to pay its employees. Our comments are limited to those areas where the state would be required to modify automated and manual processes in order to satisfactorily meet the provisions of this bill.

### SUMMARY OF PROVISIONS AFFECTING FINANCE:

- ° A major target of this legislation is aimed toward changing the way in which cost of living differentials are determined and paid. The State currently maintains 60 separate salary schedules reflecting up to 30 salary ranges and 10 steps in each.
  - Cost of living differentials have always been paid according to a uniform percentage (subject to certain exceptions due to collective bargaining) to all pay schedules. This bill (sec. 2(d)) proposes to place a lid on the maximum amount that can be paid by establishing a basic annual salary limit of \$30,000.
- ° Section 3 of the bill would limit overtime rate determination to a calculation based upon the basic annual salary amount.
- ° In terms of computing retirement benefits section 4 would require the state to track base retirement contributions separately from contributions related to the cost of living differential only. The state would have to change benefit calculation algorithms to include separate calculations for base salary benefits and benefits based on area cost of living differentials for each year of service in order to satisfy the provisions of section 4 of the bill. The current benefit calculation is performed manually and requires the state to identify the number of years of creditable service and the three highest paid years for determining benefit amounts. This bill proposes a significantly more sophisticated approach that if done manually will be more subject to errors and require significantly more manual effort than before.
- ° Section 1, 2, 4-7 have immediate effective dates upon passage of this legislation. It is not feasible to implement the provisions of this bill immediately. The State is currently implementing a new statewide accounting system (AKSAS), the current payroll system is being modified to interface with AKSAS, there are scheduled changes to the current payroll system to accommodate the most recent labor agreements, a current area differential study is being completed which will have some impact to our payroll processes, and the current classification study will also likely have significant impact to our payroll processes.

Implementing changes required by this bill will need to be flexibly scheduled to be considered along with all other changes that will be legally and procedurally required in order to keep our state payroll processes and systems properly functioning without service interruption.

Summary analysis of changes and related fiscal impact:

- Modifications to automated systems (input form changes, file changes, program changes, analysis and design)

\* 36 employee months

\* ASSUMPTIONS

- State can use existing base pay schedules for each identified employee group (approximately 12 groups).
- This bill will not attempt to change any fundamental payroll processes. No major change will be required to the current pay schedules.
- This estimate does not include estimates for data processing chargeback costs.
- Changes required by this bill will be allowed to be scheduled appropriately with all other production work that is necessary to keep the state payroll systems properly operating.

- Update State Administrative Manual to include new pay calculation changes for supplemental and prepay processes.

6 employee months

- Train state agencies in new payroll calculation procedures.

6 employee months

- Coordination of affected groups to identify and mutually agree on intent of legislation (Finance, Labor Relations, Retirement, Department of Law, Unions, Legislature).

12 employee months

- Additional ongoing manual effort to calculate benefit amounts equates to one additional position.

STATE OF ALASKA  
THE LEGISLATURE

POUCH Y · STATE CAPITOL  
JUNEAU, ALASKA 99811  
907 465-3800

LEGISLATIVE AFFAIRS AGENCY

M E M O R A N D U M

March 13, 1985

SUBJECT: Sectional analysis of SB.207

TO: Senator Jan Faiks and Senator John Sackett  
Co-chair, Senate Finance Committee

FROM: Teresa B. Cramer *TBC*  
Legislative Counsel

You have asked for a sectional analysis of SB 207, relating to public employees.

Section 1 amends the Public Employment Relations Act to prohibit including geographic cost-of-living adjustments in basic salary when calculating overtime compensation or other salary adjustments.

Section 2 limits the amount that an employee may receive as a pay step differential. The maximum differential would be calculated on a basic salary of \$30,000.

Sections 3 and 9 require that overtime compensation for state employees be calculated on an employee's basic salary before the addition of any adjustments, including pay step differentials or shift differentials. Section 9 provides that section 3 takes effect on January 1, 1987.

Section 4 and 5 require an employee to make contributions to the Public Employment Retirement System on the employee's entire compensation including a cost-of-living differential. However, the employee's benefits will be based on the entire compensation only if the employee received a comparable cost-of-living differential for at least 50 percent of the employee's credited service. If the employee does not receive benefits based on salary including cost-of-living differentials, then the division must refund the amount of contributions the employee made for the differentials.

*Sectional Analysis, SB 207*

Senator Jan Faiks  
Senator John Sackett  
Co-chair, Senate Finance Committee  
Page 2  
March 13, 1985

Section 6 forbids the state, including the executive, Legislative, judicial branches and the University of Alaska, from making changes to positions, job classes, or salaries as listed in the section.

The regulation of employment detailed in section 6 may be viewed as a legislative infringement on the executive power of the governor, the power to administer courts assigned to the chief justice of the Supreme Court, and the power to govern the University of Alaska given to the board of regents.

The legislature clearly can limit the amount of money that these coordinate branches of government may spend on personal services. Whether the legislature can limit the way in which this money is spent as extensively as this section provides is open to question.

There is also a problem about implementing the limitation on merit increases. Under the contracts negotiated by the state and the Alaska Public Employees' Association for the General Government Unit and the Supervisory Unit, the state may be required to provide a system of "performance incentives" for employees in those units. Article IV, section

2, of each of those contracts contains language on "performance incentives":

Performance incentives shall be based upon the appointing authority's evaluation of an employee's performance. A performance incentive of one step in the salary range may be given to an Employee who has received an overall performance evaluation of "Acceptable" or better on the Employee's merit anniversary date.

and

The Employer will not establish a quota or percentage system to determine the number of performance increases granted, but the parties agree to accept the standards provided in GG 77-36 dated September 27, 1979, for determining the granting or not granting of performance increases.

The text cited, GGU 77-36, is a memorandum from Sandra Withers, director of the division of personnel and labor

Senator Jan Faiks  
Senator John Sackett  
Co-chair, Senate Finance Committee  
Page 2  
March 13, 1985

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Senator Jan Faiks  
Senator John Sackett  
Co-chair, Senate Finance Committee  
Page 3  
March 13, 1985

relations, to all personnel officers. It addresses the standards that arbitrators had found to be improper reasons for denying a merit increase and heads the list with "lack of funds."

Under the second part of the contract language cited, it could be argued that denying all performance increases constituted a percentage system for determining the number of increases granted and therefore violated that clause of the collective bargaining contract. The reference to the memorandum and the memorandum's reference to "lack of funds" as an invalid basis for denying a merit increase supports that argument.

While collective bargaining contracts are specifically subject to legislative appropriation under AS 23.40.210, the legislature is not free to renegotiate the contract in making appropriations. The legislature can determine the amount of money available for state salaries, but the state is bound to pay its employees according to the terms of the contracts it negotiates. Insufficient funds would be a basis for layoffs but not for unilaterally changing the terms of the contracts.

Section 7 provides that the amendments to the Public Employees' Retirement System only apply to members first hired after the effective date of the sections amending the PERS. (They carry an immediate effective date.)

Section 8 provides that the bill does not terminate or modify a collective bargaining agreement that was in effect on the effective date established in section 10.

Section 10 provides that the bill, except for section 3, takes effect immediately.

If I may be of further assistance, please advise.

TC:mkr  
096:WKJ12

STATE OF ALASKA  
THE LEGISLATURE

POUCH Y - STATE CAPITOL  
JUNEAU, ALASKA 99811  
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

TO: Mike Greany  
Director  
Legislative Finance

DATE: March 14, 1985

FROM: Pamela Calhoon  
Manager  
Division of Administrative Services

SUBJECT: SB 207

Below is an example to show the salary differential between an employee at a Range 19A in Juneau and an employee at a Range 19A in Bethel. The employee located in Juneau would be on Schedule A. The employee located in Bethel would be on Schedule G.

Juneau 19A  
3193 per month

Bethel 19A  
4170 per month

The percentage difference is .3222.

SB 207 proposes in Sec. 2 to calculate the amount of the salary differential by two different methods. If an employee's basic annual salary is no more than \$30,000, the pay differential shall be calculated using the employee's basic salary. If the employee's basic annual salary is greater than \$30,000, then the employee's pay differential shall be calculated on the differential for a basic salary of \$30,000.

For example, a Range 19A in Bethel is currently earning 4170 a month. With the differential calculated for a basic salary of \$30,000 the monthly rate would be \$3998, a difference of \$172 a month. The higher the range the more it will be affected. For example, currently a Range 26A in Bethel earns 6572 a month. With the new differential calculation a Range 26A in Bethel would earn 5766 a month. A difference of \$806 a month.

In Sec. 3 a savings would be realized to the State by calculating overtime compensation on the basic salary of an employee before the addition of any adjustments including pay step differentials and shift differentials.

March 14, 1985  
Page 2

For example:

basic salary  
plus current differential

hourly overtime  
rate - 19A Schedule G

38.49

basic salary  
plus SB 207 proposed  
differential

hourly overtime  
rate - 19A Schedule G

36.93