INFORMATION BRIEF
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Compensation Limits for Local Government Employees

This information brief describes the compensation limits that apply to employees of political subdivisions such as cities, counties, and towns.

State law limits the compensation for an employee of a political subdivision to 110 percent of the governor's salary, with annual adjustments based on the Consumer Price Index (CPI), beginning in 2006.

The current salary of the governor is $120,303. Effective August 1, 2005, the compensation for an employee of a political subdivision cannot exceed 110 percent of that amount, $132,333, adjusted annually to reflect any increase in the CPI for all-urban consumers in the prior year.[1] As of January 1, 2009, the limit is $150,065.[2]

This compensation limit applies to employees of statutory and home rule charter cities, counties, towns, metropolitan and regional agencies, and other political subdivisions. The compensation limit does not apply to school districts, to hospitals, clinics, or health maintenance organizations owned by a governmental unit, or to medical doctors and doctors of osteopathy.

[1] Minn. Stat. § 43A.17, subd. 9.

[2] www.mmb.state.mn.us/comp-salarycap-waiver

The statute specifies what is considered compensation for purposes of the limit.

The statutory limit compares the *compensation* of political subdivision employees to the *salary* of the governor. For political subdivision employees, compensation includes certain benefits as well as salary. The statute determines what is included and excluded for purposes of the compensation limit.

Included

- All deferred compensation
- All direct and indirect items of compensation that are not specifically excluded by the statute (e.g., cash allowance for personal use of a car is included)

Excluded

- Benefits that are provided for the majority of all other full-time employees of the political subdivision, vacation and sick leave, health and dental insurance, disability insurance, term life insurance, and pension benefits
- Dues paid to civic, professional, educational, or governmental organizations
- Reimbursement for actual expenses that are directly related to the job

The statute contains a process and criteria for granting exemptions.

The Commissioner of Minnesota Management and Budget (MMB)[3] may increase the compensation limit for a position that the commissioner determines requires special expertise necessitating a higher salary to attract or retain a qualified person. In making this determination, the commissioner must consider salary rates paid to other people with similar responsibilities in the state and nation. Before granting an exception to the salary limit, the commissioner also must seek the advice of the Legislative Coordinating Commission.

Any increase must also be adjusted annually by any increase in the CPI from the prior year.[4] According to MMB, as of January 1, 2009, a local government may increase by 3.7 percent the compensation of an employee with an existing waiver for compensation to exceed $132,333. If the existing approved waiver amount is below $150,065, the local government may increase an employee's compensation to the $150,065 limit without a waiver.

[3] In statute, salary cap waivers are assigned to the Commissioner of Finance, as a result of legislation that took effect in 2008 merging most duties of the former Department of Employee Relations into the Department of Finance. Although identified in statute as the Department of Finance, the merged department changed its name to Minnesota Management and Budget in October 2008. The department will seek legislative approval for the name change in 2009.

[4] Minn. Stat. § 43A.17, subds. 3, 9.

The legislature has been addressing the issue of political subdivision salary caps since 1977.

In 1977, the legislature provided that no political subdivision employee could be paid more than the Commissioner of Finance.

The 1980 Legislature repealed the political subdivision salary cap.

In 1983, the legislature enacted something similar to the current cap—compensation for local government employees was limited to 95 percent of the governor's salary.

There have been various refinements to the law since 1983. Most significantly, in 1993 the legislature clarified what types of compensation are to be included when comparing a political subdivision employee's compensation to the governor's salary. Basically, the legislature stated that all forms of direct and indirect compensation are to be included, with certain specified exceptions. The most important exceptions are employee benefits that are provided for the majority of all other full-time employees of the political subdivision.

In 1998, the legislature excluded school district employees from the law. There is no compensation cap for school district employees.

In 2003, the legislature excluded hospitals, clinics, and health maintenance organizations owned by a political subdivision.

In 2005, the legislature debated repealing the cap altogether but determined to increase the cap and allow for annual adjustments due to inflation.

The statute limiting political subdivision salaries does not cover state employees. However, there is a separate limit for state employees.

With very limited exceptions, no state employee may earn more than the head of the agency where the employee works.[5] State law assigns executive branch agency heads to two salary ranges, which are capped at 95 percent and 85 percent of the governor's salary.[6] (These comparisons are based strictly on salary, not on total compensation.) The heads of the higher education systems are treated separately and are not limited by the governor's salary.

For more information about local government issues, visit the local and metropolitan government area of our web site, www.house.mn/hrd/hrd.htm.

[5] Minn. Stat. § 43A.17, subd. 1.

[6] Minn. Stat. § 15A.0815, subds. 2 and 3. For more on the salaries of executive branch agency heads, see the House Research publication *State Agency Head Salaries*, October 2008.