Market Pay

Management Audit Committee
July 2006

Management Audit Committee

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EXECUTIVE SUMMARY

Market Pay

Program Evaluation Division **July 2006**

Purpose

Statutes charge the Human Resource Division (HRD) within the Department of Administration and Information (A&I) with establishing and administering "a uniform and equitable compensation plan" that reflects a legislative pay policy to recognize "… the labor market in this geographic area for similar work, with consideration of the need to attract, retain and motivate qualified employees …." The Management Audit Committee requested a review of "market pay," which is the descriptive term for the state's method of compensating executive branch employees.

Background

The State is Wyoming's largest employer, with 7,580 full-time employees in the executive branch. It is engaged in a wide variety of activities and services, employing people in 474 different job classifications. In 2006, salary costs are expected to be about $290 million dollars. Executive agencies have full-time employees located in every county, 57 percent spread throughout the state and the rest located in Cheyenne, the state capital.

The executive branch, through HRD, manages the state's pay plan, with the State Employee Compensation Commission acting in an advisory capacity to the Governor and HRD. In addition to establishing enabling laws, the Legislature's role has been to decide whether and how much to appropriate for salary increases for all or some employees.

Results in Brief

The compensation system reviewed in this report has been in transition since 2000 - 2001, when the Legislature made a large appropriation to bring state employees as close as possible to 100 percent of market. HRD used this funding to begin moving from a broad band market approach to a more precise market-based pay system. Employees received market salaries according to their levels of expertise in their classifications: entry, journey, or expert (EJX).

In the fall of 2004, the executive branch adopted a new version of a market-based pay plan; it has been in place for approximately 18 months and is intended to restore internal equity among similarly-classified employees in different agencies, as well as make salaries competitive with the market. HRD did not contract for expert technical assistance when designing the latest system, and has not had an external assessment of its effectiveness. Thus, this report represents the first independent review.

We found that despite regular appropriations for salary increases, state employees have reached the current market only once since 2000. Also, HRD has not achieved agreement on how the comparable market should be defined, and has not made its pay plan processes and results transparent and accessible. We also found that salary inequities among employees in the same classifications are exacerbated by flat percentage external cost adjustments (ECAs), and that basing the system upon achieving the market average makes it very difficult to maintain both internal equity and competitive salaries.

Principal Findings

The concept of basing state employee wages off market surveys has been in consideration for almost two decades, but there has been little consistency in its implementation. The Legislature's variable appropriations as well as changes in governor contributed to this inconsistency. In many years, the Legislature made direct appropriations or directed reversion funds to increase employee compensation in relation to "market." In some years, the funding went toward adjusting employee salaries to various percentages of market; in others, it went only toward specific classifications of employees. Sometimes the Legislature gave discretion to the Compensation Commission or HRD in how to allocate legislative appropriations for market increases. Ultimately, though, discretion has been exercised by the Governor, and the two administrations in place since 2000 have had significantly different approaches to market pay.

HRD's heavy use of the Central States Salary Survey (CSSS) has long been an issue of concern. HRD uses average salary data from state governments in 12 states that participate in CSSS to determine the benchmark market average wage for most state government classifications. Statute specifies that market data will cover the labor market in this geographic area, including the private sector. However, open discussion of what should constitute the definition of a relevant market has not occurred, and consensus on this point does not exist. We believe an independent professional review of how the state defines market is in order.

Some progress has been made toward the goals announced in September 2004: to move minimum earnings above 100 percent of market entry levels, and improve salary equity within and across state agencies. However, our analysis of December 2005 salary and market data revealed that after 18 months under the new system, employee salaries continued to vary widely within individual classifications; many employees, even after years in their jobs, were not yet earning a competitive salary; and some individuals were still being paid below the current minimum market entry rate.

Our analysis also suggests that the methods used to grant employee increases (across-the-board raises and inequity adjustments) have not been effective in promoting internal equity. Those and other policy decisions appear to undermine efforts to achieve the announced goals.

Movement of all employees to current benchmark average ('05 market in July '05; '06 market in July '06) has not consistently occurred in the past. In a system tied directly to market, keeping salaries competitive means adjustments are tied to factors outside the control of the system itself. Because the market is volatile, in constant movement, the more frequent the adjustments and the narrower the definition of market, the more frequent and extreme will be the adjustments needed to maintain it.

Information about the state employee pay system is not readily available or easily understood. This lack of understanding leads to employee frustration, policymaker confusion, and ultimately, to stakeholders viewing the system with suspicion and indifference rather than confidence. HRD needs to focus on communication in the ways other states have in order to convey the vision, mission, and policies associated with the state's market pay approach, as well as its performance.

Agency Comments

A&I partially agrees with hiring outside expertise and fine-tuning approaches to funding pay increases. It believes agencies have sufficient expertise to implement the plan, and ECAs, while not part of the market pay process, are effective in working to keep up with market rates. A&I agrees it needs to develop more guidance in rules and improve its annual reports.

Copies of the full report are available from the Wyoming Legislative Service Office. If you would like to receive the full report, please fill out the enclosed response card or phone 307-777-7881. The report is also available on the Wyoming Legislature's website at legisweb.state.wy.us

Recommendation Locator

Finding Number	Page Number	Recommendation Summary	Party Addressed	Agency Response
	16	Conclusion: Policymaker agreement upon a compensation policy is difficult to reach and sustain.	N/A	N/A
1	26	HRD should obtain an independent professional review to evaluate whether it is appropriately defining market.	A&I HRD	Partially Agrees
2	36	The Legislature should consider adopting a more fine-tuned approach to funding employee pay increases.	Legislature	Partially Agrees
3	41	HRD needs to develop more comprehensive guidance in rules and policy to clarify why and how future adjustments will be made.	A&I HRD	Agrees
4	53	HRD should produce an annual report on the status of the compensation system that includes explanations of its methods and analysis of wage rates.	A&I HRD	Agrees

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INTRODUCTION

Scope and Acknowledgements

Scope

W.S. 28-8-107(b) authorizes the Legislative Service Office to conduct program evaluations, performance audits, and analyses of policy alternatives. Generally, the purpose of such research is to provide a base of knowledge from which policymakers can make informed decisions.

In January 2006, the Management Audit Committee directed staff to undertake a review of Market Pay, which is the descriptive term used to describe the state's method of compensating executive branch employees. As a organizing principal and general philosophy, market pay has been in place since the 1980s. Since that time, the system has undergone refinements and adaptations, ultimately being completely revamped in 2004. This report reviews selected issues:

- What are the elements of a market pay system? What sources of comparative information does Wyoming incorporate?
- How has the Legislature funded adjustments in its effort to bring executive branch employees to appropriate market levels?
- What have been the roles of the Human Resources Division, the Employee Compensation Commission, and the Governor in developing this system?
- To what extent have the goals of the most recent approach, as announced in September 2004, been met?
- Are employees within the "fair and equitable range"? How effective have the Legislature's "external cost adjustments" been in bringing salaries within this range?
- What reporting does HRD do regarding system performance? How open to understanding are the Division's methodologies?

Acknowledgements

The Legislative Service Office expresses appreciation to those who assisted in this research, especially A&I's Human Resource Division, Budget Division, and Economic Analysis Division; the Department of Employment's Research and Planning Section; and the many executive branch agencies whose directors and personnel administrators we interviewed.

CHAPTER 1

Background

Most state employees work in communities outside of the state capital.

The State of Wyoming is a large and diverse employer, in fact the largest in the state. It is engaged in a wide variety of activities and services, employing people in hundreds of types of jobs. The executive branch alone, with 7,580 full-time or 88 percent of state employees,[1] has 474 different job classifications that range across many areas of employment. Based on hourly payroll for filled positions in December 2005, 2006 salary costs are expected to be about $290 million dollars. Executive agencies have full-time employees located in every county, 57 percent spread throughout the state and the rest located in the capital in Cheyenne (Laramie County).

Given this size and complexity, the state's system for compensating employees is of considerable importance and interest. Legislators undertake some consideration of adding to employee pay or benefits at virtually every legislative session. The amounts of funding for these purposes are determined both through the budget approval process and through passage of individual laws, with the Governor and other interested parties making recommendations and otherwise adding to the debate.

Statute charges HRD with establishing and administering a state compensation plan.

W.S. 9-2-1022(a)(ii) requires the Department of Administration and Information (A&I) through the Human Resources Division (HRD, or the Division) to establish and administer "a uniform and equitable compensation plan." This plan, which the Governor may authorize to be implemented, is to reflect a legislative pay policy that supports:

> …a combination of salaries and benefits at equitable levels recognizing the relative internal value of each position as determined by job content, and the labor

[1] The compensation systems in use in the judicial and legislative branches, Business Council, University of Wyoming, community colleges, and for executive branch X-Band employees are separate from the market pay system and are not included in this evaluation.

market in this geographic area for similar work, with due consideration of the need to attract, retain and motivate qualified employees and to recognize the state's financial position. (W.S. 9-2-1005(b)(iv))

The executive branch adopted a new version of a market-based pay plan in 2004.

In the fall of 2004, the executive branch adopted a new version of a market-based pay plan. The Governor championed this approach in response to complaints about internal inequities in compensation that had resulted from the previous system, a decentralized approach that allowed each agency to develop its own pay plan. The current market-driven pay plan is intended to restore internal equity.

HRD and the Compensation Commission advise the Governor

HRD has a responsibility to provide consistency in state government personnel management.

HRD. Management of the state's pay plan is HRD's responsibility, along with other related human resources functions such as classification of jobs, recruitment and testing of applicants, and certification of candidates eligible for employment. This centralization underscores the regulatory responsibility of HRD to provide consistency in state government personnel management. HRD has a biennial budget of $4,375,842 and a staff of 21 full-time employees, 8 of whom manage the compensation system.

Several larger agencies such as Health, Transportation, and Environmental Quality have designated one or more of their staff to handle some of their own personnel functions. Smaller agencies typically rely on HRD for this expertise and direction.

The Compensation Commission has met sporadically over the years.

Compensation Commission and Governor. W.S. 9-2-1019(e) establishes the State Employee Compensation Commission with representation from the private sector, legislators, and the executive branch. Its purpose is to "review issues related to employee compensation" and so reviews decisions relevant to market-based compensation, along with other personnel matters. It has met sporadically over the years: four times each in 2005 and 2003, not at all in 2004 and 2001, and once each in 2002 and 2000. Staff support comes from HRD, other A&I divisions, and from the Department of Employment.

Commission meetings serve as open forums for compensation discussions.

The Commission has review authority only, as statute does not give it authority to take independent action. Thus, it acts in an advisory capacity to the Governor and HRD; neither of them is required to seek Commission approval of compensation proposals. Commission meetings also provide open hearings where employees can listen to discussion of pay issues.

Total compensation is a factor

Although wages are a major part of employee compensation, benefits are also an important component; together, they make up what is known as total compensation. In addition to salaries, state employees receive a number of basic and optional benefits:

The cost of state employee benefits, on average, equals nearly 44 percent of an individual's total compensation.

- Insurance, including basic health, dental, and life insurance; optional life insurance.
- Retirement: a defined benefit program and an optional pre-tax savings program (deferred compensation) to which the state makes a monthly contribution.
- Paid leave including holidays, vacation, and sick leave.
- Social Security, Workers' Compensation, and Unemployment Insurance contributions.
- Monthly longevity payments: $40 for every increment of five years worked for the state.
- Other intangible benefits such as job security.

According to experts, public employers tend to offer greater employee benefits than private employers do, whether measured in dollars or as a percentage of total compensation. On average, the cost of state employee benefits in Wyoming equals about 44 percent of an individual's total compensation package.

Employee benefits have increased in this decade.

Wyoming state employees have seen improvements in their benefits in this decade, largely because of the Legislature's change from making a flat-dollar contribution toward health insurance premium costs to covering 85 percent of chosen coverage. Also since 2000, the state added a monthly match for deferred compensation, and increased the monthly longevity payment by $10.

Selected principles of compensation

Several principles for effective compensation systems, articulated nearly 20 years ago by the American Compensation Association (now known as WorldatWork), are important considerations. They include:

Employee satisfaction with pay tends to be related to understanding the pay structure.

- An employer's goal is to pay what is necessary to attract, retain, and motivate a sufficient number of qualified employees. This requires rates that are responsive to competitive market considerations.
- Proper maintenance of a pay program requires there to be clearly stated objectives, policies, and procedures that are well-communicated.
- Employees have a need to perceive that their level of pay is fair and competitive.

More recently, WorldatWork has found a correlation between an employee's satisfaction with pay and an understanding of how the employee's organization determined that pay. To achieve these and other goals, employers establish pay structures – which in turn become the foundation of most employee compensation programs. Pay structures are job hierarchies with pay rates or ranges assigned; the ranges are determined by market rates for comparable jobs as well as by judgments about the relative internal worth of the job's content.

Job classification establishes internal job value.

Classification. Classification is an organizing mechanism of sorting and categorizing jobs into "job families;" properly carried out, it can promote internal consistency in wages. Classification is a highly technical field and reviewing that part of the state's system is not part of this evaluation. However, Figure 1.1 illustrates the diversity of the state employee workforce, showing the largest classification series, with the number of incumbents in each in July 2005.

Figure 1.1

Most populous classification series
July 2005

Series	Employees	Percent of workforce	Average July 2005 Salary
Transportation	882	11.6	$2,573
Admin. Specialist	710	9.3	$1,848
Financial/Statistical	597	7.8	$2,741
Law Enforcement	499	6.5	$2,539
Trades	428	5.6	$2,509
Human Services	401	5.3	$1,632
Casework	398	5.2	$2,995
Engineering	330	4.3	$4,064
Information Technology	294	3.9	$3,512
Environment	252	3.3	$4,330
Wildlife/Fish	251	3.3	$3,173
Benefits Specialist	239	3.1	$2,874
Nursing	218	2.9	$3,562

Source: LSO fiscal data

The state is transitioning to a different market pay approach

State's market-pay compensation approach has been in flux since 2000.

The compensation system we have been directed to review has been in transition since 2000 - 2001, when the Legislature appropriated $22.5 million in General Funds, most of it to make adjustments that would place employees as close as possible to 100 percent of market. HRD used this funding to begin moving from a broad band market approach to a more precise market-based pay system. Market pay is more fully described in subsequent chapters, but in essence, it sets salary ranges for individual jobs based on the amounts paid by comparable employers for similar work.

External cost adjustment. In addition to the system itself being in transition, the process by which state employee compensation is increased appears to be changing. For years, the Legislature has approved specific amounts of funding for state employee salary increases in separate appropriations within the budget bill's Section 300. A change was made in the

Including annual compensation increases in agencies' standard budgets is new in the '07/'08 Biennium.

2006 Session that will be in effect for the duration of the '07/'08 budget: an external cost adjustment (ECA), or an across-the board pay increase, of 3.5 percent was calculated for each employee and that amount was incorporated into each agency's standard budget request. The Governor's intention is for this to become an ongoing process.

Some state employees will also receive market adjustments in 2006.

Market adjustments. A third factor currently in flux is the disposition of funding for market adjustments that the 2006 Legislature approved in separate legislation, in the amount of $8.3 million. This funding will be used to adjust the pay for selected positions to levels closer to the midpoints (see below) for their markets. As this report is being written, HRD staff is calculating which positions will receive adjustments and for what amounts. Since employees who receive market adjustments will only begin to see these increases and the ECAs reflected in their end-of-July 2006 paychecks, the effects of this additional funding cannot be analyzed at this time.

Central States Salary Survey

HRD uses other state governments' wage scales to establish the market costs for Wyoming state employees.

In a market pay system, the determination of a relevant and appropriate labor market, or with which employers to compare, is clearly an important decision. In Wyoming's case, HRD relies heavily for comparative data on information from a subset of a voluntary association of 25 states in this region called the Central States Compensation Association (CSCA). Its members report salaries for over 220 "benchmark" positions, with the benchmark jobs serving as market anchor points; these jobs are selected because they closely resemble jobs performed in the other organizations.

The resulting information allows salary comparisons between very similar positions in the different states' pay structures. Unlike comparisons with the private sector, comparisons with other state governments are more likely to match jobs with equivalent duties and scale of responsibility. Wages for other jobs can be extrapolated from the benchmark information.

Midpoints are considered the market rates.

Minimums, midpoints, and maximums. The market approach involves comparing pay range midpoints, which are defined as the market "going rate" for jobs. Pay range minimums are the lowest salary levels at which qualified candidates should be hired, while the maximums are the highest rates employers pay for jobs at a given level. The maximum recognizes in a structural way that there is a limit of worth for any job, above which the organization will not ordinarily pay.

Advancing in the pay range

Under a market-based compensation system, there is an expectation that as the chosen (comparable) market pays more for jobs, employees will periodically receive commensurate salary increases. Organizations must decide how they will move employees through the pay ranges – or in other words, move them from the minimums to the maximums of the pay ranges for their jobs. The following are different mechanisms used to grant increases, each having a somewhat different purpose:

Typically, organizations determine how they will move employees within pay ranges.

- *General* (or across-the-board) increases are equal percentages or equal dollar amounts granted to an eligible group. This type of increase is not conceptually compatible with pay-for-performance or merit programs.
- *Cost-of-living* increases, typically awarded in percentage terms to all employees in a pay structure, are intended to protect employees' purchasing power against erosion caused by inflation.
- *Promotion* increases go to employees promoted from one job to another job that has a higher pay grade and range.
- *Length of service* increases.
- Increases based on *merit*, which are usually in the form of a range of percentages for varying performance levels.

Merit pay has not yet been implemented in the state pay plan.

At this point in the transition of Wyoming's market-based pay system, it is not clear how employees can expect to move through their pay ranges. Other states often base such movement on individual determinations of merit, but in Wyoming's system, the performance appraisal component is not linked to the salary structure. Statutory authority exists for this component, but the

Legislature has not appropriated funding for that purpose. HRD says a new pay-for-performance system is under development.

Wyoming labor market conditions are challenging

The state will need a strategy to compete for employees.

Currently, the labor market is tight: Wyoming has low unemployment and a booming economy; state government's workforce is aging and a large number of impending retirements from state service make recruitment challenging and retention of skilled employees extremely important. Maintaining an effective compensation system for executive branch employees needs to be part of the strategy used to meet these challenges.

The market-driven approach is still relatively new

The current compensation system is the fourth plan the state has used for paying employees in the past 30 years. In essence, this means in recent decades, the employee pay system has undergone substantive change on average every six to ten years. Some differences between recent systems are outlined below.

State employee compensation systems have changed often.

Figure 1.2

Executive branch pay plans

	Time period	Characteristics
Jacobs System	1970s to 1989	1,400 classifications Step system
Custom-designed point factor plan	1989 to 1998	880 classifications 2 pay tables, each with 22 open pay ranges
Broad-band system	1998 to 2004	500 classifications Based on market information Decentralized policies by agency
Market-driven pay	September 2004 to the present	474 classifications Aims to eliminate internal inequities 1 policy for agencies

This is the first independent review of the latest approach, which is still in transition.

HRD did not contract for expert technical assistance when designing the latest system, and has not had an external assessment of its effectiveness. Thus, this report represents the first independent review. However, because this latest approach to market-based pay has been in operation for such a short time and because the system is still in transition, we consider this a preliminary evaluation. More extensive and in-depth analysis will be possible as the system continues to build a track record. In the following chapters, we review the history and development of the market pay system, assess HRD's definition of "market" and the progress made toward articulated goals, and examine whether HRD's procedures and methodologies are readily accessible and well understood.

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CHAPTER 2

Market pay concept has long been acknowledged, but its implementation has been inconsistent

1989 legislation codified the concept that state compensation should recognize the labor market in this area for similar work.

The concept of basing Wyoming state government wages off market surveys has been in consideration and various stages of implementation for almost two decades. Since the late 1980's, statute has called for HRD to collect information that compares state government employee salaries to those paid in the relevant labor market. In the 1989 State Employee Compensation Plan, a series of amendments to HRD statutes, the Legislature specified that pay data collection "shall be based on a defined and relevant labor market that is representative of the public and private sector employers." (W.S. 9-2-1022 (b)(iii)) Similarly, the legislative pay policy put into statute in the same legislation calls for the state's compensation policy to recognize the labor market in this geographic area for similar work. These oblique references constitute the extent of statutory mentions of market pay for state employees.

Session Laws often relate compensation increases to "market."

In Session Laws, however, the concept of market pay appears frequently since 1994. In many years, the Legislature has either made direct appropriations or directed reversion funds to be used to increase employee compensation in relation to "market." In some years, this funding was to go towards adjusting employee salaries to various percentages of market: 90 percent, 1994; 80 percent, 1999; 100 percent, 2001. In other years, the Legislature gave the Compensation Commission or HRD discretion in how to allocate legislative appropriations for market compensation increases. Sometimes, the funding was directed only towards specific classifications of employees, such as nurses or corrections personnel.

Task Force #7 study endorsed the use of market pay for state employees

1994 legislation implemented many Task Force #7 recommendations.

The initial focus upon market pay came about as a result of the Task Force #7 Report, which was part of a 1993 joint legislative-executive comprehensive review of state government. The report recommended basing salary levels upon current market information to ensure that state government did not overpay and unfairly compete with other employers for the best employees, and could attract and retain qualified, productive employees. To free up the funding necessary to move state compensation close to the market, Task Force #7 recommended reducing government programs.

Among them: Give agency heads flexibility to create savings to apply toward salary increases.

The 1994 budget bill implemented many of the Task Force #7 recommendations, including establishing a funding pool created from reversions and controlled by the Governor to use for compensation increases. This legislation also gave agency heads considerable autonomy to move money among some budget series to create the flexibility necessary to achieve savings. These savings, in turn, could be put toward salary increases according to agency-developed compensation plans. The 1994 legislation also established another Task Force #7 recommendation, the Compensation Commission.

In the 1990s, salary increases came from reversions.

Facing revenue shortages, reversions were to remain the main source of salary increase funds through the 1990s. In one year, the Legislature limited the use of those funds to correcting compression and inequities identified by the agencies. In another year, the reversions were to be used to bring all employee salaries to at least 80 percent of the market.

2001-2002 Biennium: $22.5 million appropriated to bring employees "as close as possible to 100 percent of market"

Although still facing a revenue shortfall going into the 2000 Budget Session, the Governor urged the Legislature to provide competitive pay so that the state's ability to recruit and retain quality employees would not decline. In that session and the next, the Legislature appropriated a total of $22.5 million in General Funds, most of it to make adjustments that would place employees "as close as possible to 100 percent of market" as recommended by the Compensation Commission.

Employees received market pay based upon experience level: entry, journey, or expert (EJX).

To distribute those appropriations, HRD developed a more centralized process based upon employees' levels of experience and the 2000 market, as defined by the Central States Salary Survey (CSSS) and the Wyoming Wage Survey (WWS). This plan required that agencies classify all employees as entry, journey, or expert (EJX). Agency mangers determined the market position of each employee by evaluating the skill sets required of each classification in conjunction with the experience level of the incumbent. From the CSSS, HRD supplied what amounted to three benchmark averages for each classification: one each for entry, journey, and expert. HRD reported that 3,385 employees received market pay adjustments, which varied depending upon how they were rated in the EJX system.

2003-2004 Biennium: The focus turned to health insurance contribution increases

The flat-amount contribution was replaced with one that covers 85 percent of the premium.

In the 2002 and 2003 Sessions, the Legislature put funding toward employees benefits, especially health insurance, and less toward compensation increases. Policymakers determined that the state's practice of funding employee health insurance coverage with a flat-amount contribution was not inducing employees to insure their families, which would make the state plan more viable. Thus, in 2003, funding was increased to cover 85 percent of employees' health insurance premiums regardless of the level of coverage they selected. Also in that year, a relatively small amount ($1.4 million) was appropriated to bring all executive branch employees to 80 percent "of market," and for other market adjustments as determined by the Compensation Commission.

New administration aimed to eliminate the inequities created through agency autonomy

The newly elected governor (November 2002) wanted to eliminate inequities that had occurred as a result of agencies developing their own compensation plans and the uneven

Agency-centered compensation plans were eliminated.

application of the EJX system. The situation had become one in which employees in the same classifications received markedly different salaries in different agencies and even within the same agencies. The new administration began by essentially halting the execution of individual agency compensation plans, and undertook to develop a centralized plan that would address inequities.

Administration's current plan is one of transition

The goal is a "fair and equitable" pay plan, uniformly applied to all agencies.

The Governor also appointed a working group from among state agency and HRD personnel, the State Compensation Plan Review Committee, to develop a compensation approach intended to ensure that pay actions are uniformly applied for all state agencies: a "fair and equitable" pay plan. To accomplish this, the administration is implementing a compensation system that transitions from the former, agency-centered system. According to HRD, elements of this transitional approach are:

Narrow market ranges for each classification have replaced the EJX system.

- Narrow market ranges for classifications, to be more competitive and to moderate the inequity among employees in the same classifications.
- "Fair and equitable ranges" extending from 10 percent above market entry (approximately 10 percent below market average) to 15 percent above market average.
- Transitionally, movement from market entry into the fair and equitable range, and to the market average within two years in a classification.
- Eventually, policies and procedures implementing a performance aspect to move employees from entry to market based upon identified competencies, rather than time in their classifications.

Eventually, a competency-based performance aspect is planned.

The working group also developed the State of Wyoming Compensation Policy, effective September 2004 and revised in August 2005. This document is essentially a manual setting out the latitude agencies have in establishing rates of pay for employees. It also gives HRD authority to approve all salary increases, and it specifies the conditions under which agencies, assuming they have the necessary funding, can adjust employees' base pay: for promotions and reclassifications, or to correct internal and external (market) inequities.

2005-2006 Biennium: State employees receive 3 percent annual salary increases

It was the first across-the-board increase since 1991.

In appropriating this increase, costing $17.8 million in General Funds, during the 2004 Budget Session, the Legislature approved the first across-the-board percentage increase for state employees since 1991. In addition, $3.2 million went for market adjustments as determined, this time, by HRD, rather than the Compensation Commission. The Legislature also allowed reversions from 2003 appropriations to salaries and benefits to be used for those purposes through June of 2006.

With other monies, the executive branch focused on lowest-paid employees, and those most behind the market.

Using its discretion and some of these reversions, the executive branch made adjustments that focused upon the lowest paid classifications, and those that most lagged the 2004 market. It also adjusted entry levels for all classifications to 100 percent of the 2004 market entry. Finally, in September of 2005, it adjusted the salaries of some 1,800 employees with two years' experience into the 2004 "fair and equitable range."

2007-2008 Biennium: Executive branch again has discretion in allocating market pay appropriations

Going into the 2006 Budget Session, A&I officials indicated that more than $30 million of the reversion funds targeted toward salary and benefit increases remained. From those funds, the Legislature funded HRD's exception budget request for $8 million to divide between a compensation pool for high-demand classifications and funds for the Governor to use in addressing the pay scale for appointed employees (X-band). It also appropriated funding for an annual 3.5 percent across-the-board increase that was built into agencies' standard budgets and called an external cost adjustment (ECA).

In addition to the 3.5 percent ECA, the Legislature appropriated $8.4 million to make market adjustments.

The Compensation Commission formally recommended to the Joint Appropriations Committee an appropriation of $17 million to bring all state employees with two years' tenure to the 2006 benchmark market averages for their classifications. However, there was no exception budget developed for this request. The compromise, developed from legislators' amendments from the floor, was $8.4 million for market adjustments. As in several other years, the executive branch has discretion in allocating these market pay funds and at the writing of this report, HRD is developing proposals for the Governor's approval.

Policymaker agreement upon a compensation policy is difficult to reach and sustain

Despite regular infusion of funding, state employees were "at market" only in 2000-2001.

From 2000 to 2005, the Legislature appropriated $29 million specifically for market adjustments, either at a specified level or at the discretion of HRD or the Compensation Commission. In addition, it allowed use of reversions from FY 2004 for the same types of salary increases, and added nearly $18 million for across-the-board increases. Despite the regular infusion of funding, state employees appear to have been at current market rates only once, and temporarily, in 2000-2001.

Notwithstanding the statutory language referencing market pay and the various executive branch approaches to reaching that objective, this outcome is not surprising. Government compensation plans are inherently political, and policymakers will likely have different opinions about what is appropriate, resulting in compromises. Consistent support of a goal of paying state employees at a specified market level requires policymakers to be in agreement with that goal and requires circumstances, such as state revenues and priorities, to be in alignment.

A critical step toward reaching consensus on a compensation policy is widespread understanding among policymakers.

It is probably not possible to predict and control circumstances that can affect the priority given to employee compensation. Policymaker agreement always to pay state employees market wages also may be difficult to sustain. However, a critical step toward reaching agreement upon a compensation policy is developing a clear statement of proposals and a widespread understanding among stakeholders of relevant information and results from previous appropriations. We found that this has been lacking in state compensation plan development, as will be discussed in Chapter 5.

CHAPTER 3

Market definition lacks agreement

Longstanding discomfort with a market defined by other state governments persists.

HRD's heavy use of the Central States Salary Survey (CSSS) has long been an issue of concern for state compensation plan stakeholders, including policymakers, agency managers, and employees. It is not clear to stakeholders how HRD arrived at its definition of "market." HRD uses average salary data from state governments in 12 states that participate in CSSS to determine the market for most state government classifications. However, statute specifies that market data will cover the labor market in this geographic area, including the private sector. An expert on this subject writes that the first step in planning a salary system is the analysis and definition of a relevant labor market. The discussion starts with agreement on the relevant market and then, the proper alignment. Neither the discussion nor the agreement upon market definition has occurred with respect to HRD's application of a market-based pay system.

Statute clearly anticipates that the state's "market" will reflect Wyoming wages

The Legislature's intention that the state's compensation levels reflect what is occurring in the rest of the state is clear. Statute (W.S. 9-2-1022(b)(iii)) requires HRD to incorporate data "based on a defined and relevant labor market that is representative of public and private sector employers." Further, the legislative pay policy articulated in statute (W.S. 9-2-1005(b)(iv)) is to support salaries and benefits that recognize "the labor market in this geographic areas for similar work."

Compensation principles hold that geography and agreement upon market definition are important

Although statute does not specify exactly what will be the market comparators for Wyoming state government, it sets clear expectations that it will be geographically-based, to a certain extent. In fact, experts in compensation systems acknowledge geography as a critical factor in salary surveys because it accounts for such variables as the local cost-of-living, the available labor pool, and the economic conditions in which the employer is operating. The common understanding is that geography is more important for lower-paying jobs and that as salaries and job specifications demand higher skills and experience, the market broadens.

Higher skilled jobs have a broader market than those requiring minimal skills.

Apart from the acknowledged importance of geography in determining compensation markets for some jobs, its codified importance to a critical stakeholder, the Legislature, makes it relevant to the definition of market for Wyoming state government. A 2005 article in a public personnel management journal written by a compensation plan expert notes that "Every salary system has to be aligned on some basis with someone's definition of the relevant market," and that "discussion starts with agreement on the relevant market and the appropriate alignment." HRD's staunch reliance on the CSSS, as discussed later, does not seem to reflect an agreement with the Legislature upon market definition.

A definition of the relevant market is the basis for a market-pay system.

The literature also indicates that every employer competes in numerous labor markets, so the CSSS does provide relevant information, just not the only relevant information. Private companies look to their service competitors to determine their compensation markets, which would make the CSSS market seem logical because other state governments offer similar services. However, they are not necessarily in competition with Wyoming for employees. In fact, HRD officials indicated that an overwhelming majority of state government employees come from within Wyoming.

CSSS is relevant, but should not be the only relevant information.

LSO effort to track ex-state employees' new employment was unsuccessful

We attempted to determine who employs executive branch employees after they end their state employment: whether they go on to work in local governments, private industry, or other states' governments. We contracted with the Department of Employment's Research and Planning Section (R&P) to obtain representative information, but researchers there encountered problems with the often very small numbers of individuals involved, once sorted by classification or by agency. State and federal laws prohibit disclosure of such information in a manner

Confidential nature of payroll records precludes tracking these individuals.

that reveals identities, either of the employing unit or the individual. Despite efforts of R&P and the State Auditor's Office to collaborate and allow use of payroll records for our research purposes, R&P was unable to complete the project, and therefore we cannot conclude on whether the 12 comparator states are or are not the executive branch's competitor employers.

HRD seeks different markets for some classifications

"Hard to find, hard-to fill" classifications require HRD to do specific market research.

Another compensation planning principle found in the literature is that different jobs may be benchmarked against different groups of competing employers, depending upon the recruiting market and role a particular job or classification fills in the organization. Therefore, the job being evaluated defines the relevant recruiting market, which is similar to what we learned HRD does with some "hard-to-find, hard-to-fill" classifications. This sort of selective consideration becomes more problematic in a public compensation system where issues of fairness and accountability might conflict with the need to fill critical positions with the most capable individuals.

HRD primarily uses other state governments to define the compensation market

HRD uses a 12-state subset of the CSSS to determine market salaries for state positions.

HRD defines "market" as the average salary paid for a job classification, in a specific survey year, by 12 of the 25 states that participate in the Central States Salary Survey (CSSS). This average salary excludes Wyoming state employee salaries. For each classification, HRD also defines a minimum, or entry salary, which is the average lowest actual salary that comparator states pay employees for that classification.

Although Wyoming has participated in the CSSS since 1986, its application to the state's market-based compensation approach solidified when state officials were determining how to dispense the large market pay appropriation for the 2001-2002 Biennium. A group of state managers called the Market Pay Advisory Group adopted both CSSS and the Wyoming Wage Survey

(WWS)[1] when working with HRD to develop a definition of market for that market pay adjustment.

The basis for using the CSSS was that it offered the greatest amount of data that relate directly to the types of jobs found in state government, and that it is easy to obtain. Some other points of the rationale behind the CSSS choice are outlined below:

HRD uses the CSSS because it offers readily available, applicable, and abundant data.

- Using the private sector would be comparing apples to oranges. A market survey should compare the same jobs in the same environments.
- There is more turnover and risk in the private sector. Salaries in the private sector are expected to be higher to compensate for this.
- There are not a lot of matches in the private sector to what state employees do, but one-to-one comparisons for the majority of state jobs are found in other states.
- The protocol applies to most of the jobs. Therefore, the process is not left open to interpretation and abuse.

Using the Wyoming Wage Survey raised concerns because it includes state employee salaries.

When determining the market data to use for classification for the FY ’01-’02 market adjustment, HRD surveyed state agency heads on which of the two markets, CSSS or the WWS, should be used to find comparable pay for their employees. HRD reported that agencies agreed on most classifications, and that the WWS was applied in those instances where there were no CSSS matches. An HRD official said that initially, the state classifications were matched about evenly between the CSSS and the WWS. However, using the WWS raised concerns because state employee wages were included, thus affecting wage estimates.

[1] The Wyoming Wage Survey or the Occupational Employment Statistics (OES) Wage Survey is prepared annually by the Department of Employment, Research and Planning Section. It is conducted according to standard techniques used in all states in conjunction with the Bureau of Labor Statistics.

Comparator states are the six contiguous states, plus six others chosen to increase sample sizes

Initially, census data were reviewed to see to which states Wyoming residents moved.

As advised by the Market Pay Advisory Group, HRD based its definition market on 12 comparator states: the six states contiguous with Wyoming, and another six that HRD believes to be competitors for state employees. When the advisory group was determining the market for Wyoming government wages, it found that it needed larger sample sizes for some state classifications, so it looked to census data to determine to which states Wyoming lost people. Some of those states were not included because the size of their markets would have skewed the analysis, and some states were included to offset states that were high-paying. Table 3.1 below lists the states on which Wyoming market wages are based.

Table 3.1

Comparator states

Contiguous states	Other comparator states
Colorado	Washington
Idaho	Oregon
Montana	Nevada
South Dakota	Arizona
Nebraska	New Mexico
Utah	North Dakota

Source: 2005 Central States Salary Survey

A one-year lag from CSSS data is optimal

A current CSSS market is actually based upon one-year old salary information.

In July of each year, participating states submit the wage data for employees in well-defined job classifications on which they agree as to job content — these jobs are known as benchmarks; hence "market" is referred to as benchmark average. The average July comparator state wages for these classifications in any given year become the basis for the next year's CSSS market benchmark averages, thus illustrating that a current CSSS market is actually based on one-year old salary information. According to HRD officials, the one-year lag from actual data is optimal.

Survey data is analyzed and becomes available in the fall, but not necessarily in time for HRD and A&I Budget Division to project the budget effects of market changes for the next fiscal year.

The executive branch determines to which year's market to apply appropriated funding.

Thus, the Governor and the Legislature ultimately determine whether funding is requested and granted for market adjustments, and how much. However, the decision as to whether or not to fund movement to the current benchmark average, or movement to some percentage of it or older survey averages, is an executive branch decision, influenced by the amount of funding appropriated.

Currently, HRD benchmarks or extrapolates the market for most classifications

A benchmark is a job description that is easily recognizable at the full journey level.

HRD benchmarks nearly all classifications to CSSS, or derives market averages using CSSS benchmarks. The process is essentially one of identifying a benchmark, a job description that is easily recognizable at the full journey level, for as many classifications as possible. In the July 2005 survey, HRD staff matched state job classifications with 142 of the 220 CSSS benchmarks. Sometimes one CSSS benchmark match will encompass more than one Wyoming classification.

Extrapolation is necessary largely because the state has multiple levels in many classifications.

HRD has to derive or extrapolate benchmarks for classifications for which there are none. For those job classifications that are not benchmarked, market is determined by calculating a percent difference up or down from a benchmarked classification, or a simple average of other benchmarks, in the same job family. The need to extrapolate occurs largely because the state has multiple levels of classifications in the same job families, such as administrative specialists or highway troopers. Finally, each year, a few job classifications lack market wage information.

The process requires HRD analysis and independent judgment.

Selecting benchmarks as well as the extrapolation is, according to HRD officials, "a very analytical process requiring independent judgment on our part," but they say such analysis is encompassed in the Division's responsibilities. HRD officials say they work as a group and with other agency personnel to make their judgments fair and accurate, and that they constantly review benchmark matches to ensure they are appropriate. They say they also call other states for more information to ensure they are getting the best match. For example, in matching the state's pilot classifications, HRD looked at those states that have the same type of planes as Wyoming. Each year, HRD goes over the survey market data, smoothing it when necessary to make it logical.

Wyoming Wage Survey use is minimal

Use of WWS was down to 16 benchmarks in 2005.

Now, HRD bases a small number of market wages on Wyoming Wage Survey (WWS) data, from information gathered by the Department of Employment. The number of WWS benchmarks has declined over time from the roughly 50 percent reported earlier in the decade. According to data provided by HRD, there were 82 WWS benchmarked classifications in 2002, 83 in 2003, and 16 for the 2005 market tables which have not been implemented. No information was provided for 2004. The few positions that are matched to the WWS include classifications ranging from firefighters and investigators to painters; from vocational training technicians to truck drivers.

Some private sector data is being integrated, but it is on a case-by-case basis

At this point, it is a subjective and informal process for certain positions.

When state managers can make a convincing case for a different market in the face of losing critical employees, HRD uses comparator information other than that provided through the CSSS or WWS to make adjustments. At this point, this is a subjective and informal process in which HRD reviews compensation information presented by the agency, conducts its own specific research, or both. For example, we heard of one instance where employees throughout the state in a particular classification did their own research on what graduates in their profession earn and what the private sector was paying. HRD found this information valid enough to adjust the salary range for this classification. In turn, the agency was relieved to be able to retain critical employees.

Wyoming government wages are influenced by other states' economic considerations

Colorado's policy is to base its market on Front Range salaries.

Having the market benchmarks for Wyoming classifications derived from the actual wages paid in the 12 selected states ties the state compensation system to those states' economies and policy decisions. For example, Colorado has a policy to base its market upon strictly in-state information, and uses surveys other than CSSS that reflect salaries being paid in the Colorado Front Range. However, Colorado finds that using the Front Range to define the market also means that state positions tend to be high-paying in some areas of Colorado, and low in others. Yet, Colorado officials believe they are taking a conservative approach by basing market on pay structure movements rather than changes in actual salaries. A criticism of this approach is that it causes pay ranges for some jobs to be above or below what the positions actually earn in the market.

Other states' economic considerations and priorities influence the CSSS benchmark wages.

Regardless of what additional survey data and policies Wyoming's CSSS comparators use to define their markets, and the subjective ways they combine that information, state policymakers make the final decisions on the levels at which state employee salaries are funded. The combinations of economic considerations, priorities, and obligations that impact their decisions mesh into the CSSS benchmark wages, which HRD adopts as defining the market for Wyoming state employees. Unlike other states, Wyoming does not enhance that market information with much information that reflects in-state economic conditions.

Agency managers say local private sector is drawing away state employees

They say the state does not compete with other states for employees.

Generally, state managers complain that they are not competing for employees with the twelve states from which HRD draws comparators through the CSSS, but with the local private sector, which in some sectors, is currently booming. Managers say that the state is having difficulty competing with the local private sector at both ends of the spectrum: in general labor positions and in technical and specialty areas. On the other hand, without considering local wage data in setting its wages, the state could be paying higher than market for some classifications and thereby unfairly competing in the state's tight labor market.

HRD does not survey Wyoming local government, which is a major part of the state's economy.

Further, by relying on the CSSS so heavily, HRD is not including in its definition of market the largest segment of the state's economy, and one that likely has similar positions. This is the government sector, which the A&I Economic Analysis Division reports in 2004 accounted for one-fourth of the total jobs in the economy. The roughly 65,000 jobs in this sector included state, local, and federal governments, as well as school districts and hospitals. The Division also reports that by 2014, most growth in this sector is expected in local government (including hospitals and K-12 education), with slower growth for state government, and contraction for federal government. So state government faces competition from within its own sector.

Legislature's uneasiness in fully funding market requests indicates a lack of confidence.

An obvious effect of the lack of agreement in the definition of market is the Legislature's uneasiness in funding market-based pay increases for state employees. The literature asserts that since the market moves constantly, compensation systems need consistent adjustments in order to maintain competitiveness. If the state is to maintain its investment in human capital as a means to assure effectiveness, all stakeholders must have confidence in the system.

HRD's ability to draw comparators from the state's workforce is hampered

HRD appears to use the 12-state subset from the CSSS because it is a rich source of applicable data, and it is relatively easy to access. Further, over the years, HRD personnel have become quite involved with the compilation and management of the survey, and thus are able to tailor it to meet Wyoming data and benchmarking needs. They believe they are familiar enough with the process to match classifications at the right levels and exclude some other state data that does not seem appropriate.

HRD efforts to survey local employers have not been successful.

In contrast, their efforts to survey local employers have not been successful. This may reflect that, according to the literature, corporate employers tend to rely on private surveys that are important to their industries and are often not willing to participate in other surveys. And, HRD has not purchased many of the surveys that are available because of the costs involved.

Wyoming's economy does not offer adequate numbers of comparators for many state jobs.

According to HRD and other state officials, the Wyoming economy does not offer enough data for all state classifications to satisfy statistical standards. This is more important in the public sector where the size of the payroll, stakeholder interest, and public scrutiny are concerns.

The Wyoming Wage Survey does not suffice to supply this additional data for a number of reasons. In some classifications, state positions comprise the entire or most of the market. Also, in many cases, the WWS data combines entire job families, which does not allow the degree of specificity needed to separate markets for the various levels of classifications within the same families that occur in the state system. In contrast to the CSSS which collects all salary data in one year, the WWS includes three years of data, with one-third coming from each year.

Recommendation: HRD should obtain an independent professional review to evaluate whether it is appropriately defining market.

Fine-tuning HRD's use of the CSSS will not generate agreement about market definition.

It is difficult for us to evaluate HRD's methodology in determining the appropriate market for each classification because it involves many different, subjective decisions, based upon HRD analysts' professional expertise and knowledge of the state classifications. They are very familiar with the CSSS and its processes and know well how to use it for creating a basis for the state's market-pay system. However, fine-tuning the CSSS will likely not generate agreement about it as an appropriate basis for the state's market-based compensation system. We believe that HRD has too steadfastly dedicated its resources to the CSSS, and now needs to incorporate more data from this geographic region into the market information it uses.

Professional assistance would help HRD integrate WY wage data in a consistent manner.

Incorporating such data is necessary in order for stakeholders to have confidence in the state's compensation system. Integrating this information appears to be complicated by the fact that Wyoming has a small economy that does not offer enough data to determine markets for many state classifications. In light of this, HRD should seek a professional review of its decision to use primarily CSSS as the source of market data, and not to include more Wyoming wage data. Professional assistance would also help HRD determine how to integrate Wyoming wage data in a manner that is consistent, rather than on a piecemeal basis. Finally, independent expertise could also advise how the economic and wage data being gathered by A&I Economic Analysis Division and the Department of Employment's Research and Planning Section could be better used to inform this process.

CHAPTER 4

Methods of making market adjustments need fine-tuning

The current approach to market-based pay has been in use for only 18 months.

The turn to a market approach began in the late 1990s, and the Legislature began directly funding wage adjustments according to "market" in 2000. System changes continued to be made over the next four years, so that the current approach to market-based pay has been in use for only about 18 months.

Our analysis of December 2005 salary and market data revealed that some progress has been made towards the goals announced in September 2004. However, employee salaries continued to vary widely within individual classifications; many employees, even after years in their jobs, were not yet earning a competitive salary; and some individuals were still being paid below the current minimum market entry rate.

We found employee salaries continue to vary widely within the same classifications.

Our analysis also suggests that the methods used to grant employee increases (across-the-board raises and inequity adjustments) have not been effective in promoting internal equity. We identified those and other policy decisions that appear to undermine efforts to achieve the announced goals.

Chasing the current market may not be the best approach.

Both the Legislature and HRD can make changes geared to improving the new pay system's salary competitiveness and internal equity. The Legislature should consider adopting a more effective approach to providing salary increases, at least for the transition period during which the state is completing its move to market-based pay. HRD needs to modify its definition of and approach to market. Chasing market puts the state in a no-win situation that requires constant adjustments, is confusing and frustrating to employees and legislators alike, and undermines the important goal of internal equity.

"Fair and equitable pay" is a range of wages

In place of EJX for each classification, the current system sets "entry" and then a range.

The goal of the state's compensation system is to implement a pay plan that provides competitive, fair and equitable compensation to all employees, a plan that supports the state's need to recruit and retain qualified state employees. The compensation policy introduced in September 2004 aimed to achieve these goals by raising salaries to competitive levels, while reducing salary inequities between agencies and within job classifications. The Governor stated that employees could look for initial signs of success through two outcomes: minimum earnings that would rise above 100 percent of market entry levels, and improved equity within and across state agencies.

Salaries within a certain range are deemed competitive

This range extends approximately 25 percent around the market average.

In addition, HRD defines a "fair and equitable" wage range around market — from market minus 10 percent to market plus 15 percent. HRD considers salaries anywhere within this range to be competitive. As far as we can tell, within that range, an individual's relative standing is determined by agency decision. At present, the Division's transitional goal is that full-time permanent employees with two years' tenure and up (similar to journey level under the earlier EJX system), should be paid a benchmark average wage.

The Legislature has committed considerable funding to move employees to competitive, equitable salaries

Between 2000 and 2005, the Legislature appropriated $29 million for market adjustments; these funds were applied either to all employees or targeted to specific classifications, such as nursing. In the '06 Session, the Legislature appropriated an additional $31 million for salary adjustments. The bulk of these funds, $23 million or 73 percent, were appropriated to fund external cost adjustments (ECAs) of 3.5 percent, the first of which will go into effect in July 2006. The remainder, $8.4 million, is for market inequity adjustments, the first set of which will also become effective in July. Additional funding was appropriated for "hot spots" and X-band employee wages.

Partial progress has been made

Our analyses compare payroll data for each year to the CSSS market data for that same year.

The new market-based pay system has been in place for only about 18 months and the move to competitive, fair and equitable salaries is not yet complete. Although the long-term effects of these factors on recruiting and retaining quality state employees cannot be measured at this point, we can assess the extent to which progress has been made to date.

Salaries analyzed are those of employees with two years' tenure.

To do this, we used salary and market data to analyze the effectiveness of HRD's current methods of moving employees to competitive and equitable salaries. Unless otherwise indicated, we focused on employees with two or more years' tenure, and we compared payroll data for each year to the market for that year as defined by CSSS. Thus, the analyses and charts that follow compare 2001 wages to 2001 market data, 2002 wages to 2002 market data, etc., regardless of whether that was the market used at the time. Throughout the '05/'06 biennium, HRD used the 2004 market, but we used the most current information available at the time, which was the 2005 market.

The most recent market applied by HRD was the 2004 CSSS market.

Generally, the Legislature appropriates funding and then allows the executive branch discretion in making wage adjustments and in determining which market to apply. As of this writing, 2004 market (based on 2003 salaries) is the functional market and will remain so until July 2006.

External inequities still exist

After the July 2001 EJX adjustment, nearly as many employees were above a fair and equitable range as were within it.

Some progress towards competitive market wages, as defined for each year by the then-current CSSS, has been made in recent years. To assess the impacts of market adjustments, we used the adjustment made in July 2001 as a baseline. The month before it went into effect, roughly 24 percent of employees with two years' tenure were *below* the fair and equitable range for their classifications, and an almost equal proportion were *above* it. After the adjustment (based on July 2001 payroll data), the proportion of employees below the fair and equitable range had declined substantially, but the proportion above the range nearly doubled. The result was that almost as many employees were above the range as were within it.

The current plan aims to counter salary disparities within the same classifications created by the EJX system.

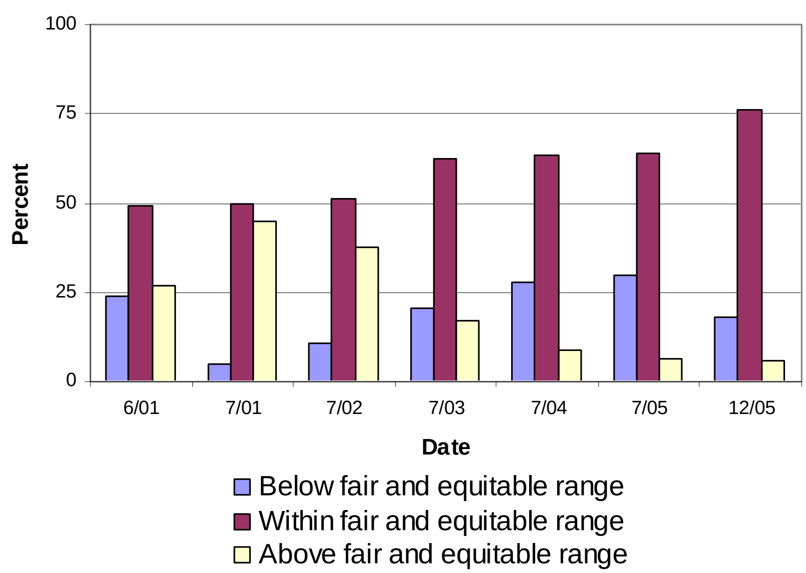
Subsequent adjustments, then, needed to counter those effects and move even more employees to within the fair and equitable range. Our analysis shows it took some time to make changes. In July 2005, when the new pay system had been in effect for nine months, 3,087 individuals or 42 percent of state employees were still either above or below their fair and equitable ranges, although a September 2005 adjustment did bring more employees within the 2004 market range (see Appendix D comparing December 2005 salaries to 2004, 2005, and 2006 markets).

Overall, between July 2001 and December 2005, positive effects can be seen but the progress is mixed. The proportion of employees whose salaries were within the fair and equitable range increased from 49 to 76 percent, and the proportion whose salaries were above the range decreased from 26 to 6 percent. However, the proportion below the fair and equitable range changed less dramatically, decreasing from 25 to 18 percent. Figure 4.1 illustrates changes at selected points.

By 12/05, more employees had fallen into the "fair and equitable" range than had moved up to it.

Figure 4.1

Experienced employees in the fair and equitable range On selected dates



Source: LSO analysis of HRD and LSO fiscal data

Internal inequities remain among state employees

We identified several kinds of internal inequities in the current pay system. These include inequities within the same job classification, among different classifications, and among agencies.

Within classifications. During the current transition period, the salary targets for all experienced employees are the benchmark averages for their job classifications. However, large variations exist in wages for experienced individuals in the same job classifications — i.e. doing the same work.

In 12/05, salaries ranged within classifications from 40 percent below benchmark average to 60 percent above.

We reviewed the range in salaries within individual classifications that had more than 20 incumbents in December 2005, and found discrepancies still existed and were substantial. Looking at all classifications, salaries ranged from 40 percent below benchmark average, to 60 percent above. Within these classifications, the range in wages varied from a 5 percent difference in salaries between the lowest- and highest-paid individuals in one classification, to a 90 percent difference in salaries in another. Figure 4.2 lists the range of ratios of highest to lowest paid salaries for experienced employees in six selected classifications.

Figure 4.2

Ratio of highest to lowest salary in selected classifications
Experienced employees, December 2005

Classification	Ratio of highest to lowest paid salary
A	1.00
B	1.21
C	1.38
D	1.51
E	1.77
F	1.90

Source: LSO analysis of HRD and LSO fiscal data

In some classifications, most employees are well below market.

Among classifications. HRD defines "competitive" as the benchmark average, and "equitable" more broadly as the fair and equitable range around benchmark average. Some classifications are populated primarily by employees who are paid well below market, while others, though fewer, are above market. In the December 2005 payroll data, all individuals in one classification were paid below the fair and equitable range.

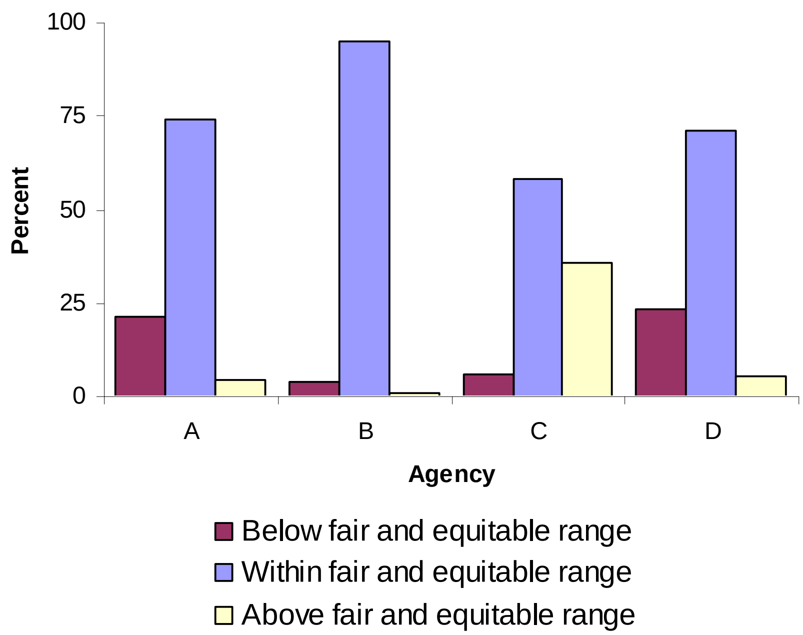
Agencies are differently able to fund salary increases for their employees.

Among agencies. Prior to the 2004 issuance of the compensation policy, there was a perception of "have" and "have-not" agencies. It was widely believed that employees in self-funded agencies or federally funded agencies with relaxed funding guidelines would be offered salaries higher than employees in the same classifications in agencies funded primarily with General Funds, or agencies whose federal funding was tightly controlled. Our analysis of wage ranges among agencies supports this perception, and although the problem is less extreme at present because HRD exerts more control over agency compensation actions, such discrepancies persist. Figure 4.3 shows that wide discrepancies still exist in the proportion of experienced employees paid within the fair and equitable range.

Some agencies have proportionately more employees in the fair and equitable ranges for their classifications than do others.

Figure 4.3

Distribution of salaries relative to the fair and equitable range
Four selected agencies (A – D), December 2005



Source: LSO analysis of LSO fiscal and HRD market data

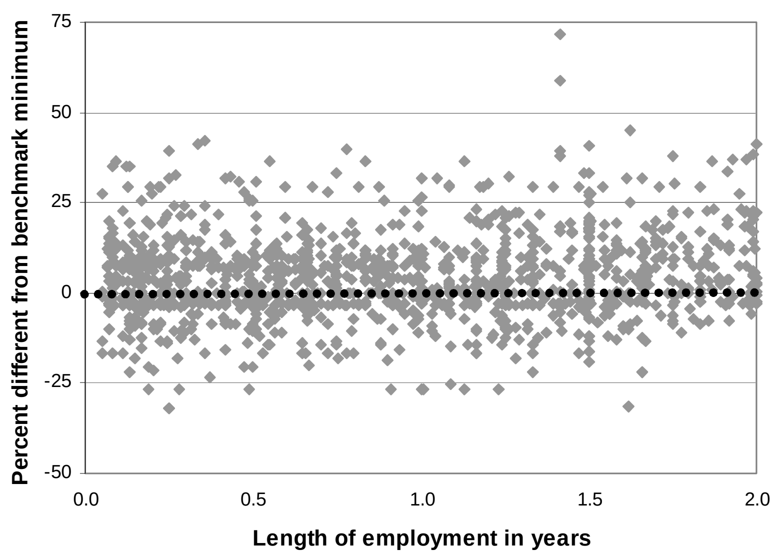
Entry salaries are critical in attracting new employees.

New employees are being paid less than100 percent of entry. The market pay system has not yet achieved the goal of paying all employees at least 100 percent of entry using current survey data. Figure 4.4 below shows the distribution of new employees (those with less than two years' experience) around the benchmark minimum, with some being paid less than that. A separate analysis shows that even some experienced employees are still below entry.

In 12/05, 43 percent of new employees were paid less than the current market entry wages for their classifications.

Figure 4.4

Distribution of new employees around 2005 market entry December 2005



Source: LSO analysis of LSO fiscal and HRD market data

The history behind a recent adjustment may help explain why this is occurring. While an adjustment was slated for July 2005, it was not actually implemented until September 2005. When it made that adjustment, HRD made it based upon 2004 market numbers rather than 2005 market wage rates. As a result, December 2005 payroll data shows improvement compared to the current market, but 43 percent of new employees were still paid less than entry.

The manner of funding adjustments, and the amounts, influence progress towards goals

The Legislature and HRD have used two primary methods to move employees to a competitive and equitable compensation rate as defined by market:

Both external cost adjustments (ECAs) and targeted market adjustments have had the effect of moving employees toward market.

- External cost adjustments (ECAs): These are across-the-board increases paid to all employees. With recent ECAs, the Legislature has granted percentage increases, rather than set dollar amounts, to all employees.
- Market inequity adjustments: These are adjustments targeted to specific classifications, intended to bring experienced employees in those classifications to a competitive salary level. To date, they have been applied only to those employees in high-impact occupations who had two years' tenure.

ECAs have not been efficient in moving employees into their fair and equitable ranges.

Our analysis of the effects of ECAs suggests that they have not been an efficient means of moving all state employees into the fair and equitable salary range. On its face, an ECA looks fair, but in practice, it brings employees up in proportion to their base salaries. This means lower-paid employees within a given classification get relatively small dollar increases while higher-paid employees in the same classification get larger ones. This disrupts whatever internal balance a pay system may have had and thereby undermines the principle of internal equity. Further, it slows the upward movement of employees who are below market, and slows the downward movement of employees who are above the fair and equitable range.

An ECA based on a salary well below market does relatively little to move it upwards.

For example, we found that in 2005, wages for employees with two years' experience in a classification found across multiple agencies, ranged from 30 percent below market (benchmark average) to 34 percent above. This is the equivalent of 20 percent below the fair and equitable range to 15 percent above it.

If a 3 percent ECA were applied in this circumstance, the low-end individual would still be 27 percent below market (if it remained unchanged) and 17 percent below the fair and equitable range. On the other hand, the individual already earning above the fair and equitable salary range would move to 37 percent above market.

An employee already above the fair and equitable range moves even further above.

The rationale behind ECAs is to “keep people whole,” but it is not clear, “whole relative to what?” An ECA of 3 percent in 2005 did not keep employees whole relative to Wyoming’s higher increase in cost of living, which was 4.3 percent. On the other hand, it exceeded the increase in the regional cost of living, the CSSS region being what defines Wyoming’s market.

The Legislature’s intent in granting ECAs is not clear.

Only the Legislature can grant an across-the-board pay adjustment, and when it does so, there needs to be assurance that such funds are having the desired effect. When appropriating funds to ensure that all employees are being compensated at a competitive and equitable rate, the Legislature can clarify what the purpose is of any ECAs. For example:

ECAs could be used in a variety of ways.

- Are ECAs intended to bring all employees to market, or to bring individuals who are below market up to that level, while giving those above market a raise?
- Are ECAs meant to have a differential impact on employees depending on where each stands in relation to market?
- Are ECAs meant to improve the system’s internal equity, or its market competitiveness?
- Are ECAs meant to maintain employees’ buying power regardless of their standing in relation to market?

The executive branch will use the ’07/’08 Biennium ECA to move state government toward its compensation goals.

The Legislature has committed funds for an ECA to be given in each year of the ’07/’08 Biennium. It did not specify this as a market adjustment and the executive branch will use it in whatever manner it believes best moves the state toward its compensation goals. In future ECA salary adjustment appropriations, the Legislature might consider clearly communicating its intent about their use with regard to market pay.

Recommendation: The Legislature should consider adopting a more fine-tuned approach to funding employee pay increases.

A more selective approach in making salary adjustments may be desirable.

According to our analysis, as of December 2005 about 20 percent of state employees were being paid below the fair and equitable salary ranges identified for their job classifications. An across-the-board raise gives a disproportionately large share of funds to individuals who may already be above the fair and equitable range, while giving a disproportionately small share of funds to individuals who are receiving wages below the market level and who need to be brought up. In order to avoid a situation in which future ECAs may exacerbate this problem, and at least for the duration of this pay system's transition period, a more selective approach to making pay adjustments may be desirable.

Graduated percentage increases or increases based upon a percentage of market average would do more to achieve market pay.

Rather than granting the same percentage across-the-board increase to all employees, the Legislature could consider appropriating funds to be awarded on a graduated basis. For example, percentage increases could be tied to benchmark average, or they could be based on an employee's salary relative to market. Graduated adjustments such as either of these could give those who are the farthest below market the biggest percentage increases. Those who are above would receive a smaller percentage, or by legislation or policy they might receive no increase. A method of awarding graduated increases is likely to promote a more rapid movement to the fair and equitable range for the bulk of employees than flat percentage ECAs can.

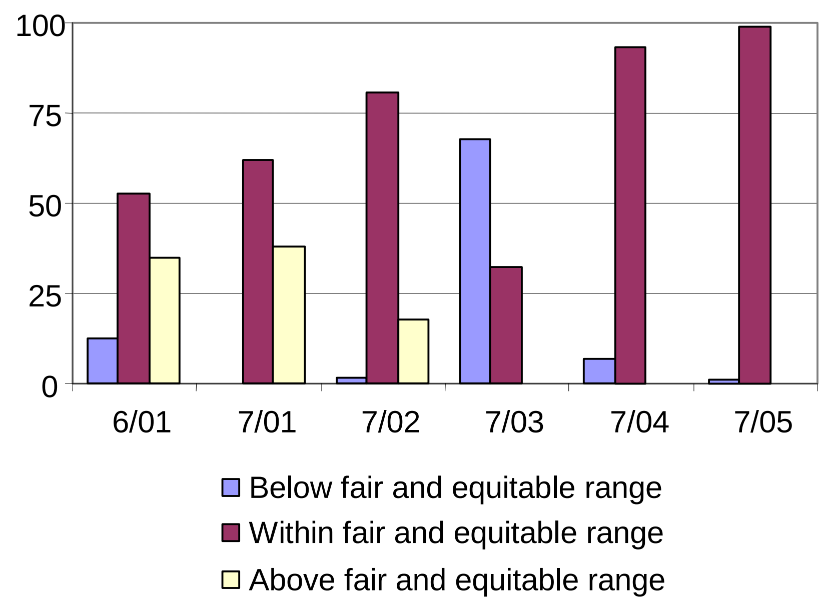
Targeted adjustments prove more effective at bringing employees into the fair and equitable range

Nursing salaries have been successfully targeted for adjustments.

In 2004 and 2005, $2.3 million in legislative appropriations for market adjustments was used for targeted adjustments for specific nursing classifications. Salary increases for four nursing classifications were funded to go into effect in July 2004 and again in July 2005; the Legislature targeted these classifications because of chronic turnover problems. Figure 4.5 illustrates that these targeted adjustments were successful in bringing experienced nurses into the fair and equitable salary range.

Figure 4.5

Nursing salaries relative to the fair and equitable range



Source: LSO analysis of LSO fiscal and HRD market data

Tying salaries tightly to a single market wage may actually undermine some of the state's goals

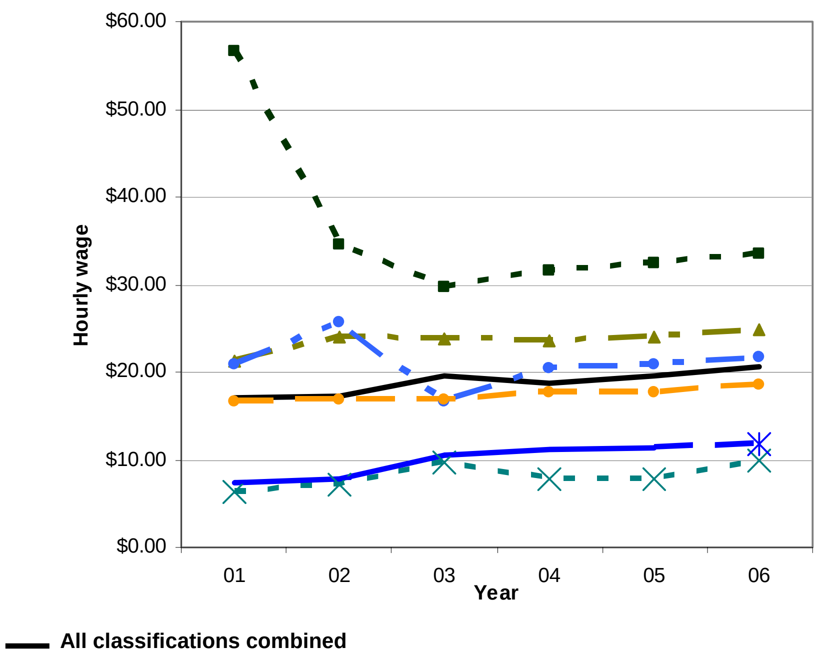
HRD maintains that once all employees are moved to current market as defined by CSSS, the cost of future adjustments will be minimal. However, this prediction may be based on assumptions about how the market as a whole will move, when in fact, the cost of adjusting salaries will depend on how the market for each of the state's 474 classifications moves.

In any year, market average for a classification can move up or down.

While market movement overall has been up, averaging just over three percent per year over the past five years, the same does not hold true for any single classification. From 2001 to 2006, the benchmark average overall increased just over three percent, but individual job classification benchmark averages moved both up and down, sometimes to extremes. Figure 4.6 compares changes in the benchmark average for combined classifications, with changes in benchmark averages for several individual classes.

Figure 4.6

Benchmark averages for all classifications combined and for selected individual classifications, June 2001 to January 2006



Source: LSO analysis of LSO fiscal and HRD market data

Adjustments put employees at benchmark average only temporarily.

Limited experience also suggests that the buffering effect of moving individuals to benchmark average is temporary. For example, in July 2003, about 500 employees in 65 classifications within 11 agencies were moved to exactly benchmark average for their classifications. Two years later, depending on how the markets for these classifications moved, salaries for the same employees ranged from well below to slightly above market. Seven percent of these individuals had fallen below the fair and equitable range, and another ten percent were on the verge of doing so.

A market pay system has volatility

With market-based pay, adjustments are tied to uncontrollable factors.

Movement of all employees to current benchmark average (2005 market in July 2005, 2006 market in July 2006) has not consistently occurred in the past. In a system tied directly to market, keeping salaries competitive means adjustments are tied to factors outside the control of the system itself. Because the market is volatile, in constant movement, the more frequent the adjustments and the narrower the definition of market, the more frequent and extreme will be the adjustments needed to maintain it.

Both market and entry levels are moving targets, and are independent of the peculiarities of Wyoming's economy and workforce, the goals of the pay system, and to some extent, of each other. Since market as HRD defines it is a function of economic and labor circumstances in the comparator states rather than those in Wyoming, the actions of those states may not always serve this Wyoming-specific purposes.

Not adjusting wages down when their market value drops means compensating effects are lost.

Market volatility combined with HRD's practice of not adjusting individuals' wages, or even whole classifications, downward when their market value declines, increases the overall costs of adjustments; this is because any compensating effects of market declines are lost. In addition, not adjusting some salaries downward means that in effect, a fair and equitable approach is applied only for those employees in classifications with increasing market value. The market signal that a job has a set value to the state, one of the principles in setting wage ranges, is lost.

Agency budgets strain to accommodate system goals

In general, individual agency personnel budgets are not constructed with the flex needed to accommodate annual adjustments of all employees to changing benchmark averages. The goals of maintaining internal equity and externally

At times, the goals of maintaining internal equity and external competitiveness are incompatible.

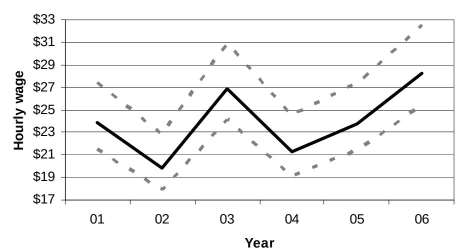
competitive salaries are not always compatible, and market volatility combined with agency funding constraints will likely continue to exacerbate existing problems.

Currently, HRD offers neither policy nor procedures to provide agency guidance on how to balance these conflicting values. These decisions will continue to be driven primarily by individual agency funding circumstances, absent a legislative decision to fund specific adjustments.

Adjusting benchmarks annually is a complicated process.

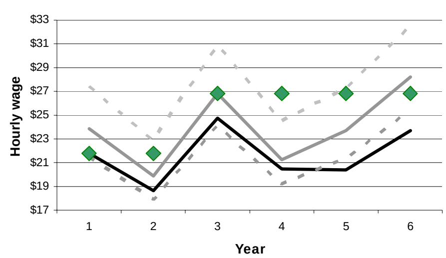
At best, adjusting large numbers of jobs and ever-changing staff to annual changes in benchmarks is an extremely complicated process. Some new employees are hired even in the most stable classifications, making for a constantly changing group who meet the definition of "experienced." To illustrate the challenges of making frequent adjustments while maintaining both internal equity and competitive salaries, we chose to describe one individual in one classification.

This chart shows changes in benchmark average and the fair and equitable range for one job classification, from July 2001 to July 2006.



An individual in one classification illustrates the challenges.

Depending on when an individual is hired and how much funding is available, the hiring agency may have a complicated and expensive set of considerations associated with both providing a competitive wage and maintaining internal equity. A person (◆) hired at entry in year 1 illustrates this problem: in year 2, because of market declines in his job classification, this individual finds his salary 10 percent above the benchmark average, or 10 percent above the wage an experienced employee could expect to be moved to — if the agency has adequate funding. In year 3 (after his second anniversary), this employee would be



considered experienced and thus should be moved to the benchmark average; in this example, the individual needs a 14 percent increase to get to benchmark average. In subsequent years, without further adjustments, he finds himself well above the fair and equitable range (year 4), then within the range (year 5), and in year 6 below benchmark average.

Benchmark average wage is a narrow goal

Market volatility affects the state's pay system each year.

A look at any individual classification shows similar volatility, suggesting there is an inherent tension between external and internal equity. Adjusting to annual market changes means that each year, in each classification, employees are likely to need an adjustment upward to meet market, or conversely, they could be overpaid based on that year's market value for the job classification. It also means that every year, agencies must decide how to hire new employees at a competitive wage, and how to adjust salaries to promote equity for longer-term employees who may have been hired at previous market high or low points.

Recommendation: HRD needs to develop more comprehensive guidance in rules and policy to clarify how and why future adjustments will be made.

The current definition of market, and methods of implementing it, leave legislators wanting to know why all employees have not yet reached their market rate of pay, and employees wondering why their salary is not what is shown on the HRD website as 2006 market. Further, human resources staff in agencies question how, given their budget constraints, they can fund movements of large numbers of employees to whatever the current goal is.

Market average may be too narrow a goal for the state.

Market average may be too narrow a goal for the state to adhere to: A single wage published as market sets up unreasonable expectations for employees and requires constant adjustments, some of which would cancel each other out over time. Although it has not yet been put into effect, the intention to adjust salaries annually for each job classification is a narrower interpretation of market and competitive wage than is generally recommended in best practices. In other states, market information is used as a gauge of salary competitiveness, with other procedures and information factored in to ensure consistency in approach.

A more strategic approach might mean broadening some definitions.

HRD needs a more strategic approach to funding movement to market, if that is in fact the state's ongoing priority. It needs to consider broadening the definition of and approach to market adjustments. Using a rolling market average, or periodic rather than annual adjustments for classifications, will provide consistency and reduce annual market fluctuations.

Stakeholders need more involvement in system discussions.

In developing more complete guidance for agencies, HRD should promulgate rules and develop procedures to minimize misinterpretations and resentments among employees, inequities among agencies, and frustration among legislators. It can look for funding alternatives to address the inherent conflict between maintaining internal equity and paying competitive wages. HRD also needs to engage stakeholders in a review of system priorities and approaches; part-way through the transition to market-based pay, an open discussion regarding policy and implications is indicated.

CHAPTER 5

Compensation system lacks transparency

Without an understanding of the system, stakeholders are confused, frustrated, and generally lack confidence in it.

Information about the state government employee compensation system is not readily available or easily understood. The system directly affects 7,580 full-time employees plus part-time employees, yet it is doubtful that many could piece together an explanation of the system from the fragmented information provided by HRD. Policymakers, who are asked almost annually to appropriate millions in state dollars to support the system, must rely upon anecdotal understanding and non-specific explanations to make their decisions.

This lack of understanding leads to employee frustration, policymaker confusion, and ultimately, to stakeholders viewing the system with suspicion and indifference rather than confidence. HRD needs to focus upon communication in the ways other states have in order to convey the vision, mission, and policies associated with the state's market pay compensation approach, as well as its performance.

Information on state compensation system must be gathered from various sources

The 2004 "State of Wyoming Compensation Policy" presents goals for the market pay system.

Currently, HRD's principal means of communicating the state government's market pay system is a 37-page document entitled "State of Wyoming Compensation Policy." Issued in September 2004 and updated a year later, the Governor's forward describes the new policies and procedures as "the first of many steps in the right direction;" the forward also describes compensation as a "highly evolving process." In the initial policy, the Governor pledged improved equity within and across state agencies, and minimum earning standards to rise above 100 percent of market entry levels. The Policy's continuing goal is to:

> "Provide a market-based target hiring range and establish fair and equitable base pay and non-base pay actions that will be uniformly applied for all state employees."

__The policy is primarily a procedures-oriented document for HR managers.__

The content of the policy, however, does not provide additional explanation of either the goal or the state's plan to reach it. Instead, it is primarily a procedures-oriented document, apparently aimed at agency managers who handle compensation issues. It outlines specific steps in making compensation adjustments under different circumstances, but includes few definitions of the terms used. In short, it offers little clarification to anyone who is not already highly involved in administering the compensation system, or who has not dedicated time and effort to understanding it.

Web site offers information without explanation

__There is no guidance indicating how to use the information provided on the web.__

HRD maintains an "employee compensation" web site, http://personnel.state.wy.us/secc/seccindex.htm, within the Department of Administration's Human Resources Division grouping of sites. There, it lists links to several types of compensation-related information, such as the Compensation Policy discussed above, and market compensation tables dating back to 2000. However, beyond caption descriptions, it offers no explanation of the materials or general introductory comments for them. Thus, employees and other stakeholders are left to cast about in the information made available, without any guidance about which is pertinent and which is not.

__The site features pay band information that is no longer applicable.__

The site includes information that has expired as well as information that is prospective. For example, along with the market compensation tables, the site still features pay tables related to the pay band system. HRD officials say the narrower market pay ranges for each classification are more reflective of the salaries employees can expect, and no employee can be moved above market average without HRD approval. Thus, leaving the pay band information on the site without explanation serves to confuse employees, who might believe they have the potential to earn up to the top of their pay bands.

A helpful and self-explanatory feature on the site is the "total compensation worksheet." This enables employees to enter their specific salary information and learn the value of their benefits, including health insurance, retirement, sick and annual leave, Social Security and Medicare, and others. The worksheet also calculates the value of the benefits as a percentage of base salary.

Bulletins and minutes impart disjointed information

The HRD administrator writes a monthly bulletin, also available on the web site, which is intended for agency directors and human resources personnel to use in communicating with employees. However, because it is abbreviated and uses specialized terms and concepts, readers must be knowledgeable about the compensation system and recent related occurrences in order to follow it. From our conversations with agency human resource personnel, there is confusion even at that level, which does not bode well for average employees understanding what the bulletins are reporting.

Readers must be well informed about compensation issues to understand the bulletins and the minutes.

Compensation Commission meetings offer opportunities for those employees and other stakeholders who are able to attend them to learn about the state's compensation system. The Commission did not meet during the research phase for this report, so LSO reviewed years of meeting minutes. These minutes are also posted on the Internet, presumably to keep interested parties not in attendance up-to-date with compensation plan modifications. However, the content of minutes is also difficult to construe without a considerable background in the applicable concepts and terms.

Other states produce annual reports

Explanatory reports with analytical and performance components are typical in other states.

An explanatory report with an analytical/performance component would be consistent with the kind of reporting being produced in other states. We reviewed state-produced reports on compensation systems in the region, including Colorado, New Mexico, Texas, Idaho, Arizona, and Montana, as well as several independent audits of states' pay systems. No two of these states operate under the same system, some are unionized - some not, each uses somewhat different terminology, and each has its own unique circumstances and political dynamic. Nevertheless, we found that most human resources administration divisions annually produce reports on the current status of compensation in their state governments. For example, in several of the states, the executive branch is statutorily required to submit an annual report to the governor and the legislature. Some of the state human resource departments are charged with including "advisory" recommendations on that state's pay system.

The Colorado report shows which individual classifications are to be adjusted, and why.

Colorado details survey process. While each of these states does a good job of explaining its practices, Colorado is particularly open about its processes. Like HRD, the Colorado human resource division has the authority to establish technically and professionally sound survey methodologies, conduct the surveys, analyze data, and report on survey findings. However, it explains in detail in a report appendix the steps taken in conducting this process. For example, the report includes a listing of the surveys and sources used to capture information about Colorado public and private employers, and detail the criteria for selecting them.

The report shows which individual class adjustments the Department believes are necessary and why; it also estimates the total biennial costs of making those adjustments. When comparing state job classes with the labor market, the report lists the criteria the Department used for determining whether an adjustment is necessary.

By statute, Colorado's compensation survey must be audited annually for performance.

To ensure the quality of the salary survey and benchmarking information, the Colorado General Assembly requires an annual performance audit of the Department of Personnel & Administration's annual total compensation survey. A recent audit recommends that Colorado "continue to educate employees about how compensation is determined." In its response to the audit, the Department uses the term "transparency" to describe its commitment to openly promulgate rules, explain methodology, issue informal publications, and meet with employees to explain compensation practices.

A goal is maintaining stakeholders' understanding and confidence.

In addition to being audited by experts, the Colorado Department of Personnel issues its own report on performance. With a major goal of maintaining stakeholders' understanding and confidence in the selection of surveys, the Department also meets with managers and employees to obtain input.

Other states present different types of information. New Mexico's report is also forthcoming but in different ways: for example, it shows exactly how many employees are under the minimum and over the maximum of their pay band, and shows the distribution of salaries by $10,000 groupings. It also summarizes industry and economic data from several sources, including WorldatWork, CSSS, and the Bureau of Labor Standards Employment Cost Index, to gauge what sort of salary structure adjustments and salary increases are occurring elsewhere. Finally, the report presents where salaries fall with respect to the state policy. For example, New Mexico has a policy to pay at 95 percent of the market, which that state considers competitive because of the value of employee benefits. The report graphs where practice is in relation to that policy.

New Mexico summarizes other economic data to gauge salary adjustments occurring elsewhere.

Similar information is found in other states' reports. For example, Texas' report gives a methodological description of how market data is weighted for consistent analysis. Arizona's report states that there is "an obligation to the taxpayers to recruit and retain an effective, productive, efficient, and stable workforce. It is important to pay employees competitively…." To that end, Arizona conducts and participates in numerous salary surveys of other governmental employers in the region, large and small, and of private employers. Montana's report also explains its market survey methodology, which includes using federal Occupational Employment Statistics (OES) survey data.

Other states present compa-ratios to show how average salaries compare with the market averages.

Other useful features found in some of these reports are tables or charts that show how average salaries of employee classifications compare with their market averages, or compa-ratios. Idaho presents this information by agency as well. Thus, it is possible to quickly identify those classifications or agencies that are below or higher than the market.

Other components of Wyoming state employee compensation are better communicated

Both the Wyoming Retirement System and Employees Group Insurance, another division within HRD, create easy-to-read bulletins telling about the state benefit systems. These are printed documents distributed to state employees that announce plan changes and explain benefits. Even if HRD maintained an on-line bulletin to limit costs, writing it in the more accessible style found in these publications would strengthen communication.

Retirement and Group Insurance are better at communicating.

Employees and policymakers do not understand what is occurring with the state's compensation plan

Our sampling of agency managers indicated a lack of understanding even at that level.

Often, employees rely upon agency managers or agency human resource professionals for compensation information that is more illuminating than that offered on the HRD web site. Yet from interviews with a sampling of these managers, in both large and small agencies, it was clear that there is a good deal of confusion and misunderstanding. As one official noted, "There is an agency responsibility for getting the information out to employees, but there should be some explanation of what is going on so that employees in all agencies are getting the same information."

Employees do not know what HRD considers when making compensation adjustments.

Another characterized state employees as believing that the current level of pay and the existence of any future increases are decided "in a purely arbitrary way." Because HRD does not publish its assumptions and methodologies, employees have no way to know what factors HRD considers when making adjustments to compensation rates. Some examples of factors HRD may or may not be considering are: whether an adjustment is given for the purpose of achieving internal alignment (equity in the relationship among state classes) or external alignment (with market practices); if external, what the magnitude of difference needs to be between state pay and the market average; whether that rate difference must be consistent and must have existed for a defined period of time; and whether recruitment and retention difficulties have been documented in those classifications being adjusted.

Knowledge of coming performance component is lacking

One of the areas where agency personnel lack knowledge is that relating to performance as an eventual avenue for additional compensation. One manager commented that the lack of a performance system is a dampener on employee morale. Several others said that employees are frustrated without a way to move up in their salary ranges, apart from the movement afforded by external cost adjustments.

HRD is planning to begin implementing a performance component in 2007.

LSO learned that for more than two years, HRD has been developing a performance aspect to the current market approach, which it hopes to implement in 2007. The system under development is called a "competency based performance appraisal system" which has a goal of "minimizing subjectivity and replacing it with objective criteria in measuring job performance." The new system will give high-performing employees opportunities to increase their skills, and pay adjustments associated with it likely will be in the form of bonuses rather than increases to base pay. HRD, along with agency representatives, is working to develop the system.

Advance preparation and explanation will be necessary, but have not occurred yet.

However, this plan was not mentioned by the agency representatives interviewed for this report, who would seemingly know of it by virtue of their positions. Since the proposed plan seems to be a significant change, requiring widespread employee buy-in to succeed, advance preparation and information would be beneficial.

Employees are not aware that compression is intentional in the new market pay approach

LSO learned that many employees are complaining about compression, as they see other employees beginning the same state job at salaries near their own. The new market pay approach intentionally creates such compression during this period of transition, but HRD is not coming forth to explain why. Officials have determined that, "Having many employees paid at market is a good thing. If they are all doing the same work, they should be paid close to the same rate. Our separate longevity program still provides recognition of length of service."

HRD sees compression as necessary during the transitional phase, but is not communicating its rationale.

LSO analysis of the payroll data indicates that compression of employees within the same classification in the same agency is not occurring to the extent some may believe. This may be because the Compensation Policy urges agencies to adjust existing employees' salaries if they hire employees at higher rates, if they can afford to do so. The compression in wage rates that still exists is more likely to be among rather than within agencies. This is likely a carry-over from the compensation practices that pre-date the current market approach, when some agencies paid high salaries in comparison to others.

Policymakers' understanding is assumed

HRD contends that it has never been able to administer the same type of market adjustment twice, because there has not been adequate funding to address the constantly changing market. True, other than in 2000 and 2001, the Legislature has not made a large appropriation directed at bringing employees up to market wages. HRD officials say that legislators tell them that they thought the 2000-2001 appropriations had "taken care" of the market issue.

HRD and the Compensation Commission do not adequately explain their requests for more compensation funding.

Yet, rather than report on the current status of state employee compensation with respect to market, or explain how market numbers have been determined, HRD and the Compensation Commission present only requests for more money to implement market adjustments. Since the requests for market adjustments do not appear in an exception budget request, there is no written narrative, leaving the talking points that accompany the request as the only justification.

Executive branch's discretionary changes to compensation are difficult to identify

In law, the Legislature has often granted discretion to either the Employee Compensation Commission or HRD in the allocation of at least a portion of the money appropriated for market compensation increases. In effect, however, this discretion rests with the Governor, with HRD and the Compensation Commission making recommendations. Beginning in 2000-2001, when the executive branch determined how to distribute the Legislature's large appropriation for market adjustments, and continuing through 2005, there have been multiple opportunities for application of this discretion in making compensation adjustments. Further, the executive branch had statutory authorization to use reversions of 2003 appropriations for salary and benefit increases through June of 2006.

There is no formal reporting of what the executive branch does with its discretion in adjusting compensation.

Without formal reporting of what the executive branch elects to do with its discretion, there is no way for either policymakers or employees to gage whether progress is being made toward market-based compensation using these funds. We were able to determine the changes HRD made in 2004 and 2005 in employees' compensation by combining and comparing information from a variety of sources, including interviews with HRD officials, newspaper articles, and Compensation Commission minutes. We also had confidential access to employee pay records for selected months from June 2001 and January 2006. However, because specific documentation of these discretionary changes before 2004 is unavailable, it would difficult to determine exactly what adjustments have been made over the years using either reversions or appropriations.

HRD lacks a tradition of written communication

Two previous evaluations of the state's human resources division found that its communication efforts could be improved. First, a 1990 LSO Program Evaluation of the Personnel System found that:

Two previous evaluations have urged HRD to improve its communication efforts.

> "The Personnel Division does not routinely provide the entire Legislature with employee compensation and benefit data and analysis. Rather, it provides piecemeal information to individual legislators upon request. Consequently, when making salary decisions, the Legislature as a whole does not have comprehensive information."

The evaluation went on to comment that as a result, the Legislature votes on general pay increases without the benefit of the statistical analysis that would inform decisions. The 1990 recommendation was that the Division analyze pertinent compensation information and annually report it to the Legislature and the Governor. Further, the report commented that the public dialogue on this topic would benefit from having this information. The Division's response to this recommendation was neutral, and it does not appear that it was implemented.

The second evaluation was done by an outside human resources organization in 1992 under an A&I contract and was reviewed as part of the 1993 Task Force #7. That evaluation's observation was that the Personnel Division "seems reluctant to provide information that has not specifically been requested, (and to) educate decision makers about the data available and how and why it would be beneficial to them." Its recommendation was that the compensation administrator and the agency director assume an active role in the "never-ending" task of educating and regularly communicating with decision makers about compensation theory and practice.

HRD weakens the system by not communicating more fully, because policymakers do not understand what support is necessary.

Thus, despite specific recommendations to do otherwise, HRD has continued a tradition of minimal communication. HRD recognizes that stakeholders tend to view the compensation system from only their individual perspectives and do not hesitate to voice critical opinions when they perceive themselves losing something because of HRD decisions. However, if the thinking has been that not delivering the message will protect the messenger, we believe it has served only to increase criticism and frustration. More importantly, by not communicating more fully, HRD weakens the compensation system's viability because policymakers do not understand what is necessary to support it.

Recommendation: HRD should produce an annual report on the status of the compensation system that includes explanations of its methods and analysis of wage rates.

HRD needs to do more to explain its decisions and the reasons behind them, the assumptions it is making when taking action, the methods it adopts and, overall, its view of the system's progress and shortfalls. Developing and reporting this kind of analysis and assessment are likely to inspire greater stakeholder confidence and support than appear to exist currently. Such reporting will also demonstrate accountability in the use of state funds.

Such reporting would inspire greater confidence in, and support for, HRD actions.

The Legislature may wish to require an enhanced annual report from HRD, similar to those produced in other states. Other methods of enhancing stakeholder understanding could be for

HRD to post on-line a frequently-asked-questions (FAQ) section, and to more publicly involve “subject matter experts” in reviewing benchmark choices in some contentious positions.

Verbal explanations are too temporary and open to misunderstanding in this wide-spread system.

One reason we emphasize the importance of publicly-available written information is that in such a large employee system, and one with such wide geographic coverage, verbal explanations turn out to be too temporary and open to misunderstanding. Employees need a stable source of information about the system under which they are being paid; similarly, policymakers need consistent information about the reasons for the executive branch’s annual or nearly-annual requests for appropriations.

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CHAPTER 6

Conclusion

At its simplest level, a market pay approach appears to be a legitimate concept around which to build a state employee compensation system. If a market approach is shaped to be responsive to whatever competitive salary rates are, it can become a tool the state uses to attract and retain qualified staff. The problem is that market pay is a general theory – not a universally agreed-upon, well defined or standardized system that is easily adapted to meet any state's needs. The devil, of course, is in the details.

State compensation systems tend to be complex for a number of reasons. Apart from the technical complexity of the language and concepts involved, it happens that agencies have different levels and sources of funding available to them and this gives them flexibility to independently adjust employee salaries. Political considerations must be reckoned with in that wages paid by state government need to have some degree of parity with the private sector. Issues of internal equity are bound to come up in a large workforce of persons who have all sorts of different skills and abilities.

Unique economic considerations in Wyoming include what is described as a boom and bust economy, one that lacks diversification to offer a range of employment opportunities similar to what state government has. Compounding these factors are issues such as continually rising health insurance costs, a tight labor market, and a workforce aging toward retirement.

Wyoming's interpretation and implementation of market pay appears to be qualitatively different from the systems we learned about in comparator states. We suspect HRD's definition of "market" may be too narrowly targeted to work effectively, and it is troubling that when comparisons to market have been made in the past, it has not always been clear which year's benchmark market average was being applied. For example, claims of having brought all employees with two years' tenure to 90-95 percent of benchmark average in 2005 may be correct, but this was accomplished in relation to the 2004 CSSS market, which was based on 2003 wage information. Not only did the claim pertain to an outdated market, but in December 2005, despite the move of more employees to within the fair and equitable range, over half of all state employees were still paid below the benchmark average.

Questions about the effectiveness of the current approach to market pay were what gave rise to the request for this evaluation. In part, we found the problem to be that this system is relatively new and not yet completely implemented. Each Governor puts his own stamp on the compensation system, and as one observer noted, "With every new governor, there's a new pay system." Another part of the problem is that the Legislature continues a tradition of neither granting the Governor's full exception request, nor specifying its intention for the funding it does appropriate. Budget bills and other legislation often do not stipulate the percentage level of market the Legislature is aiming for, or which year's market it wants HRD to use. Consequently, by default, the executive branch has made these decisions in many instances.

As to current activities, whether HRD can take a reduced amount of funding and allocate it to achieve some level of 2006 market pay (as defined by the CSSS) and also make adjustments in the second year of the biennium, remains to be seen. But, absent system change, we are concerned that the 2006 round of funding may result in the same uneven and unanticipated consequences that previous system adjustments have caused.

All these considerations notwithstanding, developing and maintaining a competitive and equitable pay system remains an ambitious but necessary goal. Stakeholders need more information to understand all the factors being balanced, and HRD needs to be more forthcoming about its methodologies. Perhaps most importantly, an expert review of the definition and implementation of market, and perhaps of the entire system, is needed and may in fact be overdue.

AGENCY RESPONSE

Market Pay

STATE OF WYOMING

DEPARTMENT OF ADMINISTRATION AND INFORMATION

Director's Office

Dave Freudenthal
Governor

Earl Kabeiseman
Director

Date: June 22, 2006

To: Representative Randall Luthi, Chairman
Management Audit Committee

From: Earl Kabeiseman, Director
Department of Administration & Information

Re: Management Audit Committee Audit on Market Pay

I received your memorandum dated June 13, 2006 concerning the report draft on Market Pay. The Human Resources Division's (HRD) comments are as follows:

1. Recommendation: The HRD should obtain an independent professional review to evaluate whether it is appropriately defining market.

The HRD partially agrees with the comments made by the Program Evaluation Team.

Comments: When the State first implemented the market pay philosophy, a team of agency representatives developed the current market definition. The HRD believes that working with agencies is the best approach in identifying the State's relevant labor market. If the state hires an independent contractor, they would possibly use the same process of surveying agencies and compiling the responses. The HRD can accomplish the same objective at a reduced cost without external professional help.

Each of the entities mentioned in this recommendation has staff available with the expertise to expand a broader spectrum of public and private sector wage data in order to better reflect Wyoming's labor market. It would be more cost effective to utilize this internal expertise in developing and incorporating additional market data into our baseline data. Independent contractors are costly and would provide the same results.

2. Recommendation: The Legislature should consider adopting a more fine-tuned approach to funding employee pay increases.

The HRD partially agrees with the comments made by the Program Evaluation Team.

Comments: The External Cost Adjustment (ECA) is based upon the Wyoming Cost of Living Index which is a reflection of the costs to live in Wyoming from one year to the next. It is not a labor market driven percentage increase, and it is important not to confuse the two processes. Appropriated funding for market adjustments will be used to close the gap between salaries. Funding for the ECA will allow employees to retain the same level of purchasing power from one year to the next.

The combination of market pay and the ECA fosters competitive salary rates. With consistent funding for the most current market rates and the ECA, the state should be able to maintain employees' salaries at competitive rates.

Although the ECA works towards keeping up with market rates, it was not to be considered a part of the market pay process. The intent of the ECA is to keep purchasing power at a commensurate level with an individual's base salary. If the state were to institute a graduated process to address market levels, individuals receiving the lesser amount would lose purchasing power from one year to the next.

3. Recommendation: The HRD needs to develop more comprehensive guidance in rules and policy to clarify how and why future adjustments will be made.

The HRD agrees with the comments made by the Program Evaluation Team.

Comments: The HRD will work to enhance the compensation policy and provide relevant educational tools to include market definition and methods of implementation. The Executive Branch's goal of moving salaries closer to one market rate can be adjusted by focusing on moving salaries into the competitive market range. This will broaden the definition of market.

4. Recommendation: The HRD should produce an annual report on the status of the compensation system that includes explanations of its methods and analysis of wage rates.

The HRD agrees with the comments made by the Program Evaluation Team.

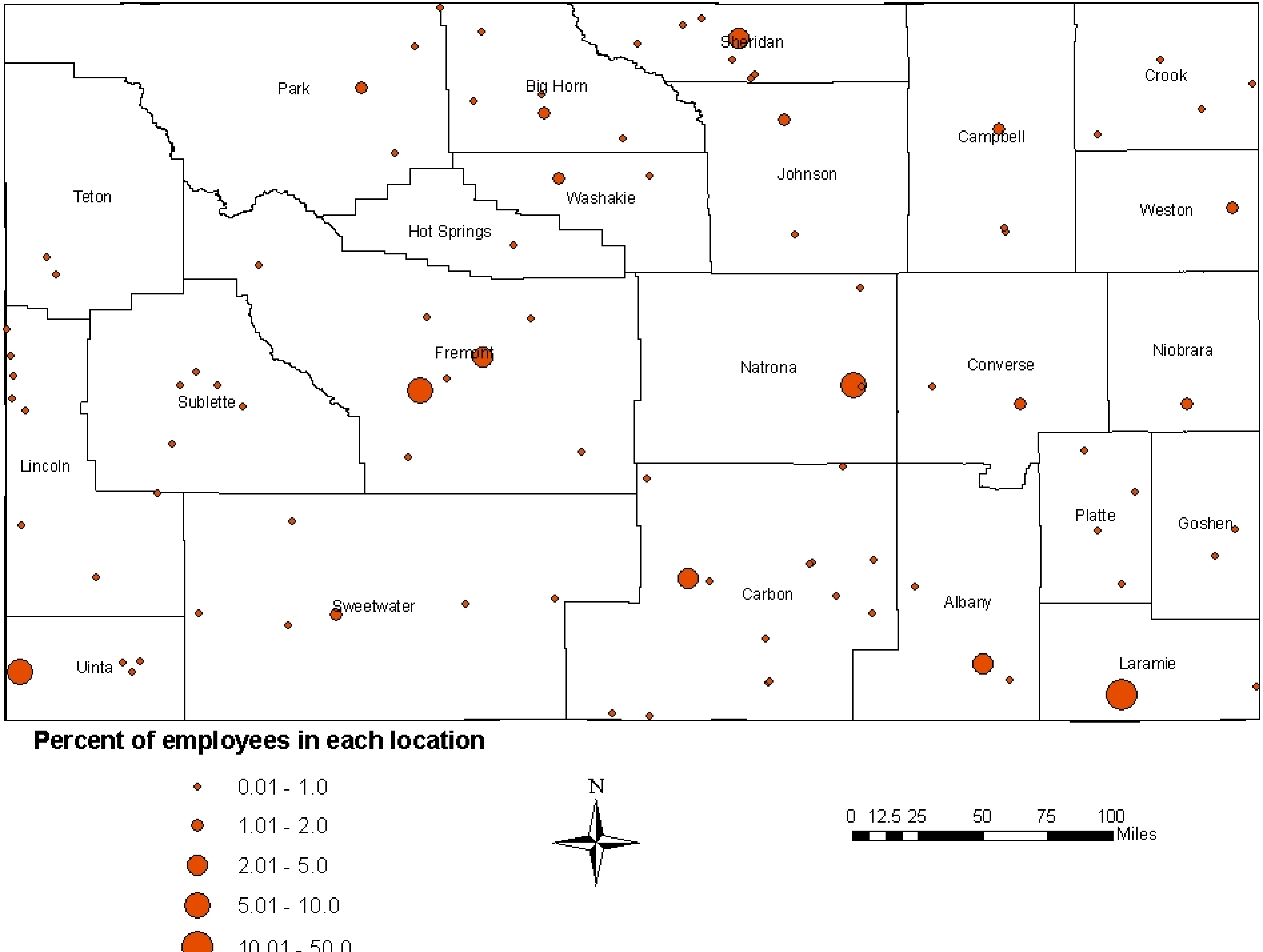
Comments: The HRD has begun researching other states' annual reports on compensation. The HRD will develop additional approaches to engage all stakeholders in the compensation process. The HRD currently produces a comprehensive workforce report. It provides a solid foundation for the development of an annual report on compensation that will meet the recommendation of the Evaluation Team.

The HRD would like to clarify an issue. The charts and graphs used in presenting comparisons with market rates were created using the 2005 market rates. As the committee may know, the 2005 rates were not implemented and there was not an appropriation reflecting those market rates.

APPENDICES

Market Pay

Percent of State Employees



APPENDIX A

Selected Statutes

Statute relating to the Governor's responsibilities for the state compensation plan

9-2-1005. Payment of warrants; budget powers of governor; agency budgets; federal funds; new employees.

(b) Subject to subsection (c) of this section, the governor may:

(i) Authorize revisions, changes or redistributions to approved budgets;

(ii) Authorize revisions, changes, redistributions or increases to amounts authorized for expenditure by legislative appropriation acts from non-general fund sources after notifying the legislature that in his opinion an emergency financial situation exists, general fund appropriations can be conserved, agency program requirements have significantly changed or unanticipated non-general fund revenues become available and qualify pursuant to W.S. 9-2-1006(a);

(iii) Authorize the receipt and expenditure of federal revenues exceeding the amount authorized by a legislative appropriation act as provided by W.S. 9-4-206(b);

(iv) Authorize the implementation of the personnel classification and compensation plan consistent with W.S. 9-2-1022(b). This plan shall reflect a legislative pay policy to support a combination of salaries and benefits at equitable levels recognizing the relative internal value of each position as determined by job content, and the labor market in this geographic area for similar work, with due consideration of the need to attract, retain and motivate qualified employees and to recognize the state's financial position.

State Employees Compensation Commission statutes

9-2-1019. Personnel hearings; state employee compensation commission created; duties.

(e) The state employee compensation commission is created to review issues related to employee compensation. The commission shall consist of not more than five (5) members to serve two (2) year terms. Three (3) members shall be appointed by the management council of the legislature of whom one (1) shall be from the private sector, and one (1) each from the senate and house of representatives, and two (2) members shall be appointed by the governor, of whom one (1) shall be from the private sector. The commission shall elect a chairman from among its members.

(f) Members who are not legislators or state employees shall receive per diem and travel expenses in the same manner and amount provided under W.S. 28-5-101.

(g) The commission shall meet at the call of the governor, or the chairman, and shall review personnel related issues including, but not limited to:

(i) Decisions relevant to market-based compensation;

(ii) Proper recognition and appreciation of employees;

(iii) Review of personnel rules and regulations;

(iv) Proper manager to employee ratios.

A&I Division of Human Resources statutes

9-2-1022. Duties of department performed through human resources division.

(a) Subject to subsection (b) of this section, the department through the human resources division shall:

(i) Establish and administer a personnel classification schedule covering all agency employees, classifying positions into categories determined by similarity of duties, authority, responsibilities and other relevant factors of employment;

(ii) Establish and administer a uniform and equitable compensation plan covering all agency employees specifying the minimum, intermediate and maximum levels of pay for positions within each classification;

(iii) Supervise employer-employee benefit plans not otherwise provided for by law;

(iv) Maintain an information roster on each employee of the state specifying employee name, employing agency, position classification, rate of compensation, job title, position description and service tenure. The information shall be available for inspection only as provided by the Public Records Act [§§ 16-4-201 through 16-4-205];

(v) Maintain a register of applications made by all persons seeking employment with an agency. Each application shall be rated on the basis of suitability and qualifications without regard to political affiliation, race, color, sex, creed or age;

(vi) Initiate and administer recruitment programs designed to attract suitable and qualified employees to the service of the state;

(vii) Approve all in-service or staff development programs available through agencies or sponsored by the department;

(viii) Approve all agencies' changes related to personnel with respect to compensation, position classification, transfers, job titles, position specifications and leave time;

(ix) Subject to subsection (g) of this section, establish personnel standards governing employee leave time, hours of work, attendance, grievances and terminations;

(x) With the cooperation and assistance of the division of economic analysis, collect and maintain statistical information related to personnel administration from agencies;

(xi) Promulgate reasonable rules:

(A) Which are necessary to administer the classification plan, the compensation plan and the system of service ratings;

(B) Governing minimum hours of work, attendance regulations, leaves of absence for employees, vacations and the order and manner in which layoffs shall be made;

(C) Concerning recruiting, transfers, discipline, grievances and appeals; and

(D) Necessary to administer a program whereby two (2) employees may share one (1) position or three (3) employees may share two (2) positions as set forth in subsection (f) of this section;

(E) Necessary to administer a program whereby contract employees may be utilized by agencies to meet programmatic needs until July 1, 1996;

(F) Necessary to administer a program whereby at-will contract employees may be utilized by agencies to meet programmatic needs. These rules shall be structured so that: *Note: (I) – (IV) not copied here.*

(xii) Establish a program whereby two (2) employees may voluntarily share one (1) classified position or three (3) employees may voluntarily share two (2) positions subject to the provisions of subsection (f) of this section;

(xiii) Administer all statewide training functions provided by the department;

(xiv) Repealed By Laws 2001, Ch. 55, § 3

(b) The current state compensation plan shall apply to all state executive branch employees except those employees of the University of Wyoming and community colleges. It shall consist of:

(i) Current job descriptions. These shall describe the nature and level of work performed and assist in job evaluation and classification, pay comparisons with other entities, recruitment, selection and performance appraisal;

(ii) Job evaluation and classification. This process shall formally assign positions to classifications and determine pay grades in one (1) or more pay systems based on an evaluation of the content of jobs using quantitative point factors. At a minimum, these factors shall include skill, effort, responsibility and working conditions. These factors and their weights shall be established by the human resources division and reflect the relative importance of job content to the state. The human resources division shall periodically audit the system through assessing employee complaints and analyzing hiring difficulties and turnover statistics;

(iii) Pay data collection and analysis. Data collection shall be based on a defined and relevant labor market that is representative of public and private sector employers. Data analysis shall identify salary ranges for each pay grade with minimum, midpoint and maximum dollar limits;

(iv) Procedures to set and change individual pay rates consistent with subsection (c) of this section;

(v) A performance appraisal system. This system shall measure performance in writing as objectively as possible. The system shall relate differences in performance levels and provide a means of employee advancement within classification pay grades. Evaluators shall be trained in performance appraisal prior to assessing the performance of any employee. Evaluators shall be required to attend continuing personnel evaluation education programs as deemed necessary by the human resources division. All employees subject to appraisal may respond to the appraisal of their performance in writing;

(vi) Data collected under this subsection shall be available to the legislature as needed.

(c) Beginning July 1, 1989, the state compensation plan shall provide for the following procedures to establish and change individual pay rates:

(i) Except as otherwise provided by law for the period commencing July 1, 1994 and ending June 30, 1998, starting rates of pay shall reflect the experience of new hires, labor market conditions and established rates of pay for current, experienced employees;

(ii) Except as otherwise provided by law for the period commencing July 1, 1994 and ending June 30, 1998, general pay increases shall be only those approved by the legislature;

(iii) Pay increases based on performance appraisals shall be approved after July 1, 1990, consistent with the performance appraisal system and appropriations for this purpose;

(iv) Promotion pay increases may be approved when an employee moves to a higher job grade;

(v) Longevity pay increases shall be approved at a rate of thirty dollars ($30.00) per month for each five (5) years of service;

(vi) Special pay increases may be approved by the governor using available funds appropriated in the personnel services category in the agencies' budgets or using the authority granted in 1988 Wyoming Session Laws, Chapter 89, Section 209.

Note: W.S. 9-2-1022 (d) – (j) not copied here as they do not relate to compensation

(k) Except as otherwise provided by law for the period commencing July 1, 1994 and ending June 30, 1996, as part of the state employee compensation plan, the division shall by rule and regulation establish a pilot program commencing July 1, 1993, under which:

(i) A portion of an employee's compensation for services performed during that fiscal year may be in the form of a bonus;

(ii) The award of any bonus shall be based on performance that satisfies previously determined criteria;

(iii) Bonuses under this program shall be funded from the encumbrance of funds appropriated for the employee's agency which funds would otherwise revert at the conclusion of the biennium. At the conclusion of each biennium, the governor shall approve the amount of funds from each agency which may be encumbered for bonuses which amount shall not exceed ten percent (10%) of the total amount which would otherwise revert at the conclusion of the biennium. Funds approved by the governor under this paragraph shall be used to fund bonuses for qualifying employees of that agency for the second year of the concluding biennium;

(iv) A proposed plan for the pilot program shall be submitted to the joint appropriations committee prior to January 15, 1994.

(m) A department director or commissioner appointed by the governor shall serve at the pleasure of the governor and may be removed by him as provided by W.S. 9-1-202. If authorized by law or upon approval by the governor, a department director or commissioner may appoint a deputy department director, one (1) or more division administrators, or both, who shall serve at the pleasure of the director or commissioner and may be removed by him at any time without cause. Any person appointed under this subsection shall be covered under the executive compensation plan. This subsection is not applicable to the game and fish department.

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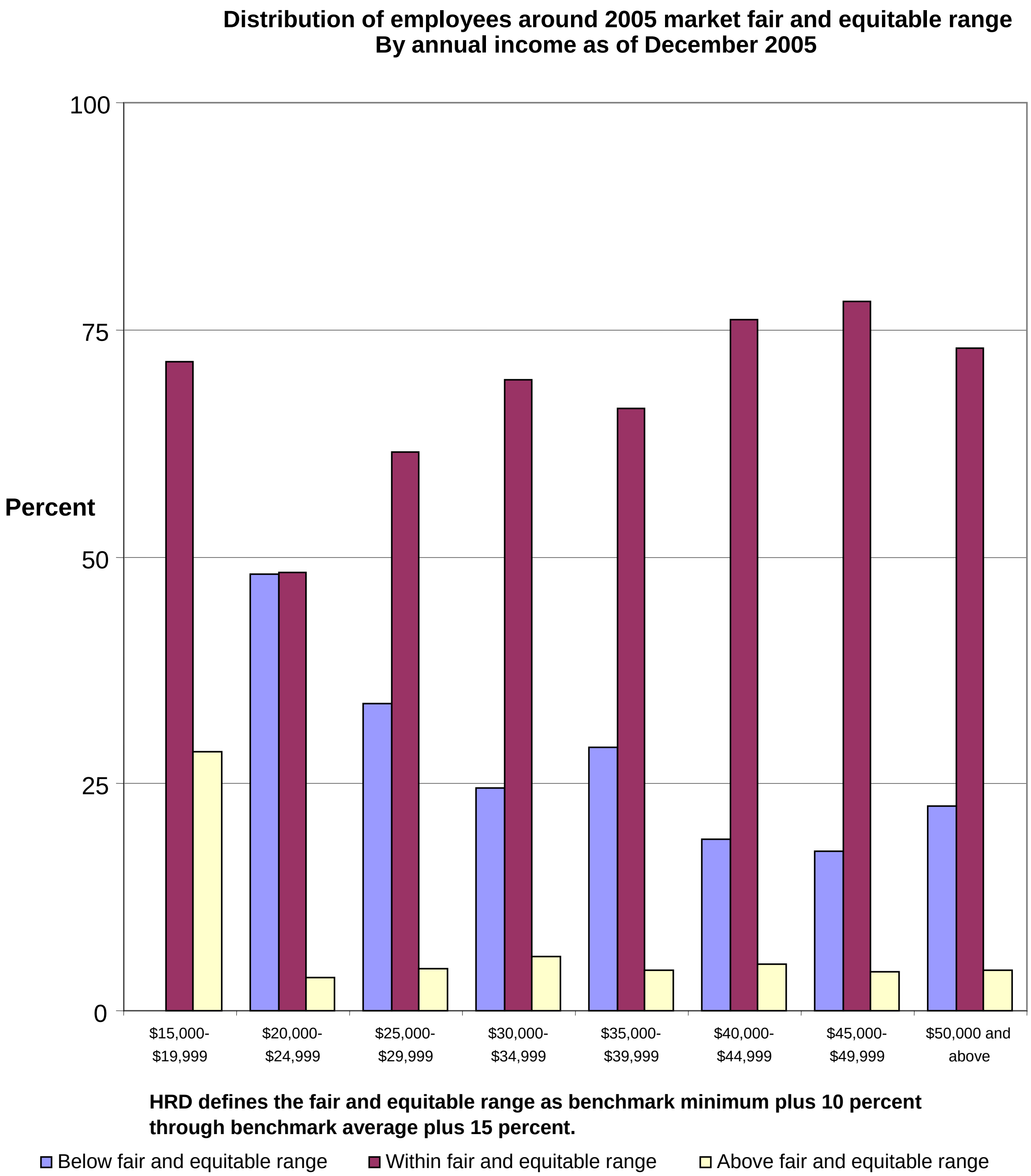
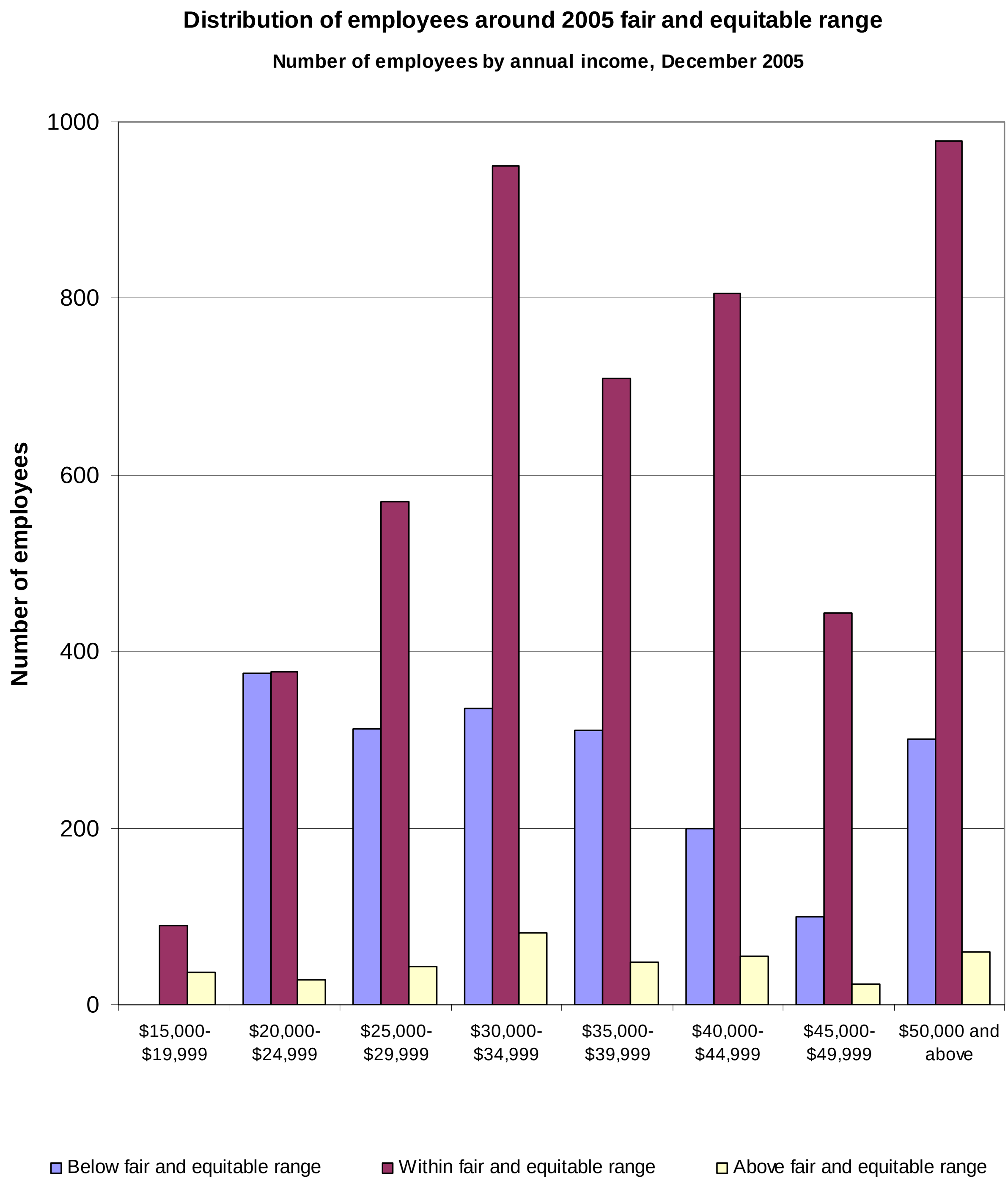
APPENDIX B

Executive agency employee locations, by percent of employees per location

APPENDIX C

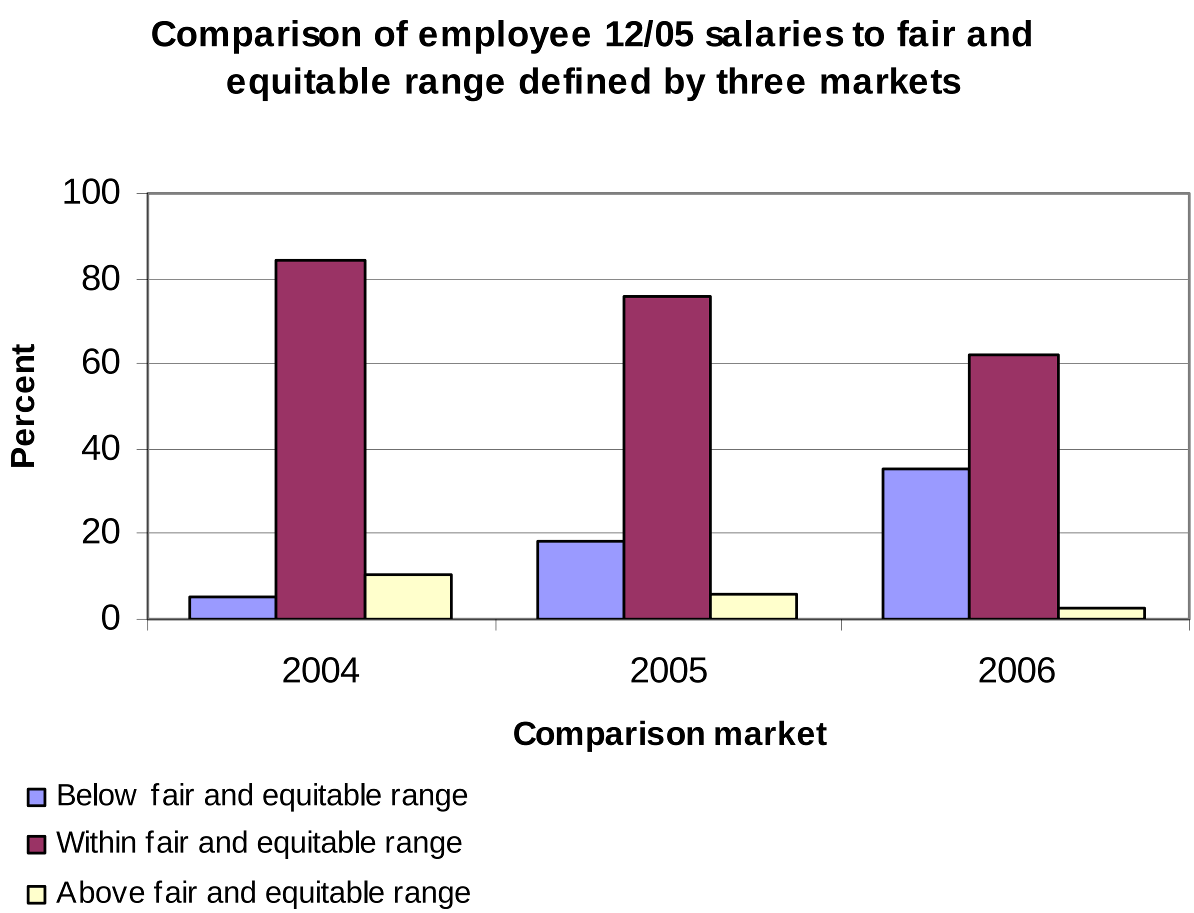
Fair and equitable status by income level




Distribution of employees around 2005 fair and equitable range
Number of employees by annual income, December 2005
Number of employees
0
200
400
600
800
1000
$15,000-$19,999
$20,000-$24,999
$25,000-$29,999
$30,000-$34,999
$35,000-$39,999
$40,000-$44,999
$45,000-$49,999
$50,000 and above
Below fair and equitable range
Within fair and equitable range
Above fair and equitable range

APPENDIX D

Multiple markets



Recent Program Evaluations

Agency-Provided Housing	September 1997
Professional Teaching Standards Board	December 1997
Game and Fish Department Limited-Quota License Draw	December 1997
UW's Institute for and School of Environment and Natural Resources	June 1998
Wyoming Department of Education School District Accreditation Reporting	June 1998
Laboratory Privatization and Consolidation	October 1998
Community College Governance	May 1999
Child Protective Services	November 1999
Wyoming State Archives	May 2000
Turnover and Retention in Four Occupations	May 2000
Placement of Deferred Compensation	October 2000
Employees' Group Health Insurance	December 2000
State Park Fees	May 2001
Childcare Licensing	July 2001
Wyoming Public Television	January 2002
Wyoming Aeronautics Commission	May 2002
Attorney General's Office: Assignment of Attorneys and and Contracting for Legal Representation	November 2002
Game & Fish Department: Private Lands Public Wildlife Access Program	December 2002
Workers' Compensation Claims Processing	June 2003
Developmental Disabilities Division Adult Waiver Program	January 2004
Court-Ordered Placements at Residential Treatment Centers	November 2004
Wyoming Business Council	June 2005
Foster Care	September 2005
State-Level Education Governance	December 2005
HB 59: Substance Abused Planning and Accountability	January 2006

Evaluation reports can be obtained from:

Wyoming Legislative Service Office
213 State Capitol Building Cheyenne, Wyoming 82002
Telephone: 307-777-7881 Fax: 307-777-5466
Website: http://legisweb.state.wy.us