
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).

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

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.

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.

Figure 1.2

Executive branch pay plans

	<u>Time period</u>	<u>Characteristics</u>
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

State employee compensation systems have changed often.

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.

Blank page.