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

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.

Agency-centered compensation plans were eliminated.

Administration's current plan is one of transition

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:

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

- 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.

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

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.

Eventually, a competency-based performance aspect is planned.

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.