
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

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

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.

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

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.

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

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.

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

Confidential nature of payroll records precludes tracking these individuals.

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

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.

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

HRD seeks different markets for some classifications

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.

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

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:

- 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.

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

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

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

A one-year lag from CSSS data is optimal

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.

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

Currently, HRD benchmarks or extrapolates the market for most classifications

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.

Use of WWS was down to 16 benchmarks in 2005.

Wyoming Wage Survey use is minimal

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.

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

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

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.

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

Wyoming government wages are influenced by other states' economic considerations

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.

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

Agency managers say local private sector is drawing away state 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.

