



Wyoming Legislative Service Office

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