



COMMONWEALTH of VIRGINIA

Department of Human Resource Management

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November 1, 2005

Dear Governor Warner and Members of the General Assembly:

Section 2.1-114.6 of the Code of Virginia requires the Director of Human Resource Management to conduct an annual review of salaries paid to employees of the Commonwealth. Surveys were conducted in each of the 25 years beginning in 1975 and ending in 1999. The eleven most recent surveys were conducted using a methodology developed by the Joint Legislative Audit and Review Commission (JLARC).

The 2000 Re-convened Session of the General Assembly approved Chapter 1073 (the Appropriation Act) on May 19, 2000. Chapter 1073 contains language in Section 4-7.02, Classified Compensation Plan, stating that:

Effective July 1, 2000, the compensation plan for classified employees in the executive branch shall be revised consistent with the recommendations contained in the report of the Commission on Reform of the Classified Compensation Plan. The Governor may phase in the reforms in such a manner as to provide for an orderly transition to the new system.

The report of the Commission on Reform of the Classified Compensation Plan included Recommendation 5, the development of a new salary survey methodology. The report stated that: "(t)he new pay structure, including the assignment of roles to pay bands, will be reviewed and validated using new salary surveys during 2000-2001."

The report also states that "(a)nnually, (DHRM) will provide the General Assembly and the Governor with data indicating projected market movement of the entire pay structure." This report has been prepared for your review and consideration in response to this statutory requirement.

Respectfully submitted,

Sara Redding Wilson

Enclosure

cc: The Honorable Sandra D. Bowen
Secretary of Administration

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTION	1
METHODOLOGY	2
FINDINGS	3
RECOMMENDATION 5: SURVEY METHODOLOGY Report of the Commission on Reform of the Classified Compensation Plan	6
COMMONWEALTH PAY BAND STRUCTURE Effective November 25, 2005	8
DISTRIBUTION OF EMPLOYEES BY PAY BAND	9
COMPARISON OF PRIVATE INDUSTRY AND VIRGINIA STATE EMPLOYEES' AVERAGE SALARIES	10

INTRODUCTION

The 2000 Re-convened Session of the General Assembly approved Chapter 1073 (the Appropriation Act) on May 19, 2000. Chapter 1073 contains language in Section 4-7.02, Classified Compensation Plan stating that:

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The report of the Commission on Reform of the Classified Compensation Plan included Recommendation 5, the development of a new salary survey methodology. The report stated that: “(t)he new pay structure, including the assignment of roles to pay bands, will be reviewed and validated using new salary surveys during 2000-2001.” Recommendation 5 is included in its entirety on pages 6 and 7 of this report.

A web-based source of salary survey data is currently available for agencies to use in daily compensation management activities such as starting pay, promotional, or in-band adjustment decisions. This tool also supports the validation of role assignments to pay bands.

The report also states that “(a)nnually, (DHRM) will provide the General Assembly and the Governor with data indicating projected market movement of the entire pay structure.” This report has been prepared in response to this statutory requirement.

Prior to 2000, an annual survey was conducted in accordance with Section 2.1-114.6 of the Code of Virginia. It required the Director of Human Resource Management to conduct an annual review of salaries paid to employees of the Commonwealth. Such Surveys were conducted in each of the 25 years beginning in 1975 and ending in 1999. The eleven most recent surveys were conducted using a methodology developed by the Joint Legislative Audit and Review Commission (JLARC).

METHODOLOGY

A 1999 Department of Human Resource Management survey found that, on average, salaries paid by the Commonwealth were 11.41% below comparable salaries paid by private firms in Virginia. Total compensation, including salaries and benefits, was found to be 3.84% below the total compensation of private firms in the state. The Commonwealth's range minimums were 12.2% below private firms' range minimums, while its range midpoints were 10.8% below and its range maximums were 9.8% below. The survey data was effective August 1, 1999.

As a part of the 1999 survey process, the salary and total compensation deviations were projected forward to July 1, 2000. The anticipated deviation on that date was 9.88% for salaries and 2.52% for total compensation. Salary range data suggested that on July 1, 2000, the Commonwealth's salary ranges would trail private firms' ranges by 11.05% at range minimum, 9.66% at midpoint, and 8.67% at range maximum.

Since 1999, no detailed surveys have been conducted to update the 1999 findings. Instead, indicators of market movement, as reflected in performance increase budgets and structure adjustments, have been gathered. The theory underlying this approach is that an employer can maintain its competitive position by increasing its salaries the same percentage as other employers are increasing theirs. In other words, if other employers are increasing their employees' salaries by an average of, for example, three percent each year, the Commonwealth can maintain its position if it also grants a three percent average increases. Other employers often use this same methodology to maintain their competitiveness.

The Department of Human Resource Management gathered projections of average 2005-2006 salary increases from a variety of sources. The primary sources were national compensation consulting firms, because they provide consistent, reliable results by surveying large numbers of employers each year. This year, surveys by the Institute of Management and Administration (IOMA), Mercer Human Resource Consulting, WorldAtWork, Compensation Resources, and Hewitt and Associates were used to measure salary increase trends. Other sources were used to confirm these surveys, including the Employment Cost Index (ECI) published by the Bureau of Labor Statistics, the 2005 Salary and Benefits Survey published by the Southeastern States Salary Conference and the 2005 Richmond Compensation Association (RCA) survey of Richmond area firms.

This year, the Department of Human Resource Management also compared the average salaries of Virginia state employees with salaries paid by other employers for comparable jobs. A suite of survey reports published by Watson Wyatt Worldwide in 2005 was used for this comparison. Watson Wyatt data for the Southeastern United States region was compared with average Virginia state salaries as of September 1, 2005. Twenty-five occupations were selected for the comparison based on the expectation of finding data for them in the Watson Wyatt reports and on their being representative of the array of state occupations. These occupations include 4.6% of classified state employees and 20 of 56 (35.7%) of the state's occupational career groups.

FINDINGS

There are two measures of salary increases that are used to maintain the relative compensation of the Commonwealth's employees with other private and public employers. The first is the average performance increase budget, which provides the actual average increase that employees in other organizations are expected to receive during the year. The second is the average adjustment that other employers will make to their salary ranges. Salary range adjustments are typically somewhat smaller than average performance increase budgets, so that employees' salaries will progress through their respective ranges.

AVERAGE PERFORMANCE INCREASE BUDGETS

The various sources of information indicated that average performance increases in 2006 would be as indicated below.

National Compensation Consulting Firms:

<u>Firm</u>	<u>Average Increase</u>	<u>Period</u>
IOMA	3.5%	Calendar Year 2006
Mercer Human Resource Consulting	3.6%	Calendar Year 2006
WorldAtWork	3.8%	Calendar Year 2006
Compensation Resources	3.5%	Calendar Year 2006
Hewitt and Associates	3.6%	Calendar Year 2006

Other Sources:

<u>Source</u>	<u>Average Increase</u>	<u>Period</u>
ECI	3.2%	Fiscal Year 2004-2005
Southeastern States	2.2%	Fiscal Year 2005-2006
Richmond Compensation Association	3.9%	Calendar Year 2006

In 2004, the national compensation-consulting firms anticipated an average performance increase budget of 3.55% for calendar year 2005. This year, they report that increases in 2005 have actually averaged 3.53%, which is 0.02% less than last year's estimates, a minimal difference.

This year, the national compensation-consulting firms anticipate average performance increase budgets of 3.60% for calendar year 2006. The average for the additional sources is 3.10%, while the combined average for all sources is 3.41%.

The survey results indicate that a 3.53% average performance increase in fiscal year 2006 would maintain the Commonwealth's 2004 competitive position through June 30, 2006, the end of the fiscal year. A 4.4% average state salary increase is approved effective November 25, 2005, including a 3.0% performance increase plus an alignment increase of \$50 per year of continuous salaried state service for employees with five or more years of service. The 4.4% average salary increase for state employees exceeds the 3.53% survey average by 0.87%.

The 2006 survey findings indicate an additional 3.41% market movement in calendar year 2006. Therefore, if employees' salaries increase less than 2.52% (the cumulative effect of the 3.41% increase and 0.87% decrease) in fiscal year 2007, the resulting market deviation will exceed the deviation that was calculated in calendar year 2004.

In addition to the 4.4% November 25, 2005 average increase, performance increases of 3.25%, 2.25%, and 3.0% were granted on November 25, 2000, 2003, and 2004, respectively, to classified employees who met performance expectations. Also, a bonus program was approved providing employees the choice of 10 additional days of leave, granted July 1, 2002, or a bonus equal to 2.5% of their salaries, paid on August 30, 2002.

Since November 2000, the average salary of classified state employees in Virginia has risen from \$34,278 to \$36,914, or 7.69%, while employers throughout the nation have funded average performance increases of 19.83%. By the end of calendar year 2006, cumulative salary increases for other employers since November 2000, are expected to total 23.92%. Including the 4.4% average salary increase effective November 25, 2005, classified state employees' salaries will have increased by approximately 12.43% over the same period. Thus, other employers' salaries will have increased by 10.22% more than Virginia classified employees' salaries between November 2000 and December 2006.

AVERAGE STRUCTURE ADJUSTMENTS

The various sources of information indicated average salary structure adjustments as indicated in the table below.

All Sources:

<u>Firm</u>	<u>Average Adjustment</u>	<u>Period</u>
WorldAtWork	2.50%	Calendar Year 2006
Compensation Resources	2.80%	Calendar Year 2006
Conference Board	2.70%	Calendar Year 2006
Richmond Compensation Association	3.00%	Calendar Year 2006

The average structure adjustment reported by the national compensation-consulting firms and the Richmond Compensation Association for 2006 is 2.75%, up from an actual average of 2.55% in 2005. Since November 2000, other employers have adjusted their ranges by an estimated 14.93%. Cumulative adjustments by other employers since November 2000 are expected to total 18.09% by December 2006, while Virginia employees' salary ranges will have risen by 8.48% during the same period. Thus, if the Virginia ranges are not adjusted between November 25, 2005 and December 31, 2006, other employers' ranges will have increased by 8.86% more than the Virginia ranges.

COMPARISON OF PRIVATE INDUSTRY AND VIRGINIA STATE EMPLOYEES' AVERAGE SALARIES

Since a detailed survey has not been conducted since 1999, Virginia state employees' average salaries were compared with salaries paid by private industry to check the validity of the market movement estimates. The 1999 survey projected an average salary deviation of 9.88% on July 1, 2000. Since that time, national compensation consulting firms and organizations have indicated that salaries have risen 19.83%, while salaries of classified state employees have increased 7.69%. Therefore, the current salary deviation is expected to be approximately 22.27%.

The comparison with Watson Wyatt data indicated a somewhat smaller deviation than the market movement estimates. The average salary deviation for the 25 occupations in the comparison was 17.36%. Detailed information on the comparison is found on page 10 of this report. It indicates differences in the deviations among the various occupations. However, the individual deviations are influenced by factors such as the internal alignment of jobs, the varying markets for the various jobs, and the different mix of responding employers from year to year. Therefore, absent further analysis, the information should be used only as an indicator of the average deviation.

CONCLUSIONS

There are several measures of competitiveness that can be used to formulate a strategy for adjusting state employees' salaries, beginning in fiscal year 2007 (November 25, 2006), to improve the state's competitiveness:

- ✓ An adjustment of 3.41% would equal the anticipated market movement in calendar year 2006.
- ✓ With annual increases of 1.97%, in addition to current market movement each year (3.41% in 2006), the November 2000 market position can be restored by December 2010. This approach would require a total increase of 5.45% in November 2006.
- ✓ Based on the estimated 9.88% salary deviation on July 1, 2000, 4.10% annual salary increases, in addition to the current market movement each year (3.41% in 2006), would make state employees' salaries equal to the market by December 2010. This approach would require a 7.65% increase in November 2006.
- ✓ Providing funding for agencies to implement pay practices is another approach to improving competitiveness. For example, providing for average 0.5% increases would reduce the necessary November 2006 increases in the three options above to 2.90%, 4.93%, and 7.11%, respectively.

RECOMMENDATION 5: SURVEY METHODOLOGY REPORT OF THE COMMISSION ON REFORM OF THE CLASSIFIED COMPENSATION PLAN

The Commission recommends the establishment of a new salary survey methodology to ensure that classified salaries are competitive with appropriate public and private sector markets.

The *Code of Virginia* does not define the specific competitive philosophy for the Commonwealth other than to state the goal noted below. Section 2.1-114.6 of the *Code of Virginia* states: “It is the goal of the Commonwealth that its employees be compensated at a rate comparable to the rate of compensation for employees in the private sector of the Commonwealth in similar occupations.”

The definition of competitive, while not stated, can be derived based upon past practice of the executive and legislative branches. Historically, the Commonwealth's salaries have been allowed to lag the market.

The goal of the new survey methodology will be to pay employees fairly and consistently for the jobs that they perform. The level of this compensation should be sufficient to attract, retain, and motivate the Commonwealth's workforce.

The new methodology should support the following purposes:

- Educate employees and managers on the value of each of the components of state's total compensation package;
- Provide agency management with relevant salary data to assess competitive pay rates or make salary decisions;
- Provide salary data for DPT to maintain the pay structure or re-align occupations within the pay structure;
- Provide information on emerging pay practices and trends to assure that the Commonwealth's pay plan is current and responsive to state and agency needs.

A new survey methodology is recommended that will annually collect data on salaries, other compensation strategies, and benefits from appropriate public and private sector markets. These measures comprise the components of a total compensation program. Total compensation includes salaries, retirement and life insurance, and other benefits such as healthcare, annual and sick leaves, premium pays, bonuses, and other practices. The comparison between the Commonwealth's total compensation package and prevailing practices in the labor market will be accomplished through a series of surveys and data analyses purchased and/or conducted by DPT. The surveys should include both public and private markets since many of the state's jobs do not have counterparts in the private sector.

The following criteria should be considered in the selection of surveys:

- the survey will provide adequate descriptions of work to match state roles;
- the survey will provide data necessary for survey analyses;
- the survey will adequately explain its methodologies in sample selection and data analyses;
- the survey will report the effective date for pay rates collected;
- the survey will include appropriate markets for the Commonwealth;
- the survey may be a published survey conducted by a third party;
- the survey will be available for DPT to examine, verify, and/or purchase; and
- the survey will provide substantial value in increasing the number of job matches for the Commonwealth and/or other labor markets appropriate for the Commonwealth.

When third-party surveys are selected, DPT will match market job titles to the new roles. DPT will provide available market comparisons for roles within career groups, and will provide as many matches as possible for each role. Because benchmark positions may not be available for every job within a role, it may be necessary to focus on those benchmark positions that are the best match to employees' respective positions. In some cases, several benchmark positions may be used to determine or approximate the value of employees' respective positions in the labor market.

DPT, on an annual basis, will publish the results of the survey process. The results will include such statistical data as hiring rates, market averages, and percentiles (where the salary for a specific position/working title would fall in comparison to the market data). The results will also include information on benefits comparability.

Managers will be trained on how to use these results in determining salary increases with the new pay practices. The results will be used as a reference to show what a similar job title would be paid in the market. Managers will need to consider other factors in determining an employee's salary such as agency need, budget availability, and internal alignment.

The new methodology will retain regional and local salary differentials. Agencies may continue to provide DPT with local salary information and data supporting their respective needs. DPT will review and approve local salary adjustments and differentials requests to move roles to different pay bands.

The new pay structure, including the assignment of roles to pay bands, will be reviewed and validated using new salary surveys during 2000-2001. Annually, DPT will provide the General Assembly and the Governor with data indicating projected market movement of the entire pay structure.

COMMONWEALTH PAY BANDS

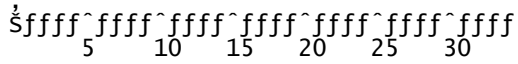
EFFECTIVE NOVEMBER 25, 2005

STATE (SW) PAY BANDS		
Effective 11/25/2005		
Pay Band	RANGE	
	Minimum	Maximum
1	\$ 14,212	\$ 29,168
2	\$ 18,567	\$ 38,105
3	\$ 22,188	\$ 45,539
4	\$ 28,987	\$ 59,492
5	\$ 37,869	\$ 77,720
6	\$ 49,473	\$ 101,533
7	\$ 64,633	\$ 132,646
8	\$ 84,435	\$ 173,289
9	\$ 110,307	Market

NOVA (FP) PAY BANDS		
Effective 11/25/2005		
Pay Band	RANGE	
	Minimum	Maximum
1	\$ 14,212	\$ 37,918
2	\$ 18,567	\$ 49,537
3	\$ 22,188	\$ 59,201
4	\$ 28,987	\$ 77,340
5	\$ 37,869	\$ 101,036
6	\$ 49,473	\$ 131,993
7	\$ 64,633	\$ 159,176
8	\$ 84,435	\$ 207,947
9	\$ 110,307	Market

DISTRIBUTION OF STATE EMPLOYEES
BY PAY BAND
OCTOBER 1, 2005

	<u>Freq</u>	<u>Cum. Freq</u>	<u>Percent</u>	<u>Cum. Percent</u>
1 ,****	2893	2893	3.98	3.98
2 ,*****	11401	14294	15.68	19.65
3 ,*****	25032	39326	34.42	54.07
4 ,*****	17895	57221	24.60	78.67
5 ,*****	11459	68680	15.75	94.43
6 ,*****	3409	72089	4.69	99.11
7 ,*	409	72498	0.56	99.68
8 ,	217	72715	0.30	99.98
9 ,	18	72733	0.02	100.00



Percentage

COMPARISON OF PRIVATE INDUSTRY AND VIRGINIA
STATE EMPLOYEES' AVERAGE SALARIES
SEPTEMBER 2005

Occupation	Private Industry Average Salary	Average Virginia Employee Salary	Deviation
Truck Driver, Light	\$24,400	\$19,191	-27.14%
Security Guard, Unarmed	\$29,900	\$20,930	-42.86%
Cook	\$25,100	\$22,861	-9.79%
Mail Clerk	\$25,500	\$22,939	-11.16%
Laboratory Aide	\$22,100	\$24,565	10.03%
Cashier	\$27,700	\$25,117	-10.28%
Secretary	\$32,300	\$26,747	-20.76%
Yard Labor/Janitorial Supervisor	\$38,500	\$29,105	-32.28%
Maintenance Electrician	\$37,700	\$32,228	-16.98%
Marketing Specialist	\$46,000	\$36,157	-27.22%
Medical Laboratory Technologist	\$33,900	\$36,696	7.62%
Accountant	\$44,300	\$38,856	-14.01%
Social Worker (MSW)	\$42,900	\$40,088	-7.01%
Staff Registered Nurse	\$49,500	\$42,083	-17.62%
Employee Training Specialist	\$44,800	\$42,753	-4.79%
Attorney	\$97,400	\$48,422	-101.15%
Chemist	\$62,400	\$49,036	-27.25%
Internal Auditor	\$61,600	\$49,485	-24.48%
Human Resources Supervisor	\$69,100	\$52,321	-32.07%
Environmental Engineer	\$52,600	\$53,304	1.32%
Architect	\$56,700	\$56,221	-0.85%
Physical Therapist	\$58,500	\$60,449	3.22%
Systems Analysis Supervisor	\$75,500	\$68,688	-9.92%
Data Base Administrator	\$75,100	\$73,063	-2.79%
Civil Engineering Supervisor	\$88,700	\$76,682	-15.67%
Average			-17.36%

NOTES:

- Occupations were selected to represent a cross-section of state jobs. Of 69,112 classified employees on September 1, 2005 (UVa is excluded), 3,162 (4.6%) were in these 25 occupations.
- Private industry data represents weighted average salaries for the Southeastern U.S., collected in Spring 2005 and published by Watson Wyatt.
- Virginia state employees' average salaries are those in effect September 1, 2005.
- A negative deviation is the percentage that the Virginia employees' average salary would need to be adjusted in order to equal the private industry average.