Approved: February 12, 2007
Date

MINUTES OF THE SELECT COMMITTEE ON STATE EMPLOYEE PAY PLAN

The meeting was called to order by Chairman Pat George at 7:15 A.M. on February 9, 2007 in Room 519-S of the Capitol.

All members were present except:
Representative John Grange- excused

Committee staff present:
Alan Conroy, Kansas Legislative Research Department
J. G. Scott, Kansas Legislative Research Department
Julian Efird, Kansas Legislative Research Department
Cyndie Rexer, Committee Assistant

Conferees appearing before the committee:
Carl Hill, Chief of Staff of the Kansas Association of Public Employees
Brian Thompson, President of the Kansas Association of Public Employees

Others attending:
See attached list.

The meeting was called order at 7:15 A.M. by Chairman Pat George. The minutes of February 5, 2007 were distributed. Representative Tom Hawk moved the minutes be accepted, Representative Lee Tafanelli seconded the motion. The minutes were approved..

Chairman George introduced Carl Hill, Chief of Staff of the Kansas Association of Public Employees and Brian Thompson, President of the Kansas Association of Public Employees. Mr. Hill presented testimony on KAPE's views on the state employee pay plan and the following materials were given for review:

Testimony by the Kansas Association of Public Employees, Attachment 1.
A Pay Plan for the 21st Century, prepared by the Kansas Association of Public Employees, Attachment 2

The cornerstone of KAPE's position is to reward with regular and progressive wage adjustments and recognize employees for exemplary work which in turn achieves retention. KAPE recommends that over the interim, a blue ribbon task force consisting of legislators, members of the administration and representatives of the state employee workforce be impaneled to review results of the study and report its recommendations for addressing issues raised in the Hay Report to the Legislature and the Governor. KAPE's Legislative Committee has developed an 8-point plan for addressing some of the critical issues regarding state employee compensation.

Alan Conroy, Legislative Research, distributed a Profile of Classified and Unclassified Employees, Attachment 3.

Following the presentation, there was time for questions and answers. Representative Ann Mah requested a table showing sick leave, vacation time, and personal days given to employees and the scale at which they are given. Legislative Research will prepare the table.

The meeting was adjourned at 8:00 A.M. The next meeting is scheduled for Monday, February 12, 2007, 9:30 A.M. in Room 519-S.

**HOUSE SELECT COMMITTEE ON**
**STATE EMPLOYEE PAY PLAN**

**GUEST LIST** **DATE** February 9, 2007

| Your Name | Representing |
|---|---|
| Carl Hill | KAPE |
| HOWARD SMITH | PITTSBURG STATE UNIVERSITY |
| Brian R Thompson | KAPE |
| George Vega | DofA DPS |
| Carol Reed | SRS |
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# TESTIMONY

By

The Kansas Association of Public Employees

Before the House Special Committee on the State Employee Pay Plan
The Honorable Pat George, chairman
Friday, February 9, 2007 -- Statehouse, Topeka, Kansas

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I am Carl Hill, chief of staff of the Kansas Association of Public Employees. On behalf of our President, Brian R. Thompson, who appears here with me, we appreciate the opportunity to present our views on the state employee pay plan. KAPE represents more than 20,000 public employees and retirees across Kansas.

KAPE has followed with great interest the discussions about state employee compensation and the preliminary findings of the Hay Group. To a great extent, what the Hay Group and the Department of Administration have told you, validates KAPE's belief: that state employee pay lags significantly behind similar positions in the private sector; and as employers, the state must act as soon as practical to make Kansas state employment more attractive.

The cornerstone of KAPE's position on state employee compensation, as addressed by its Legislative Committee, is to <u>REWARD</u> with regular and progressive wage adjustments and <u>RECOGNIZE</u> employees for exemplary work. If we are committed to these principles, then it becomes easier to achieve the third aspect, which is <u>RETAIN</u>.

Our testimony this morning will speak to fairly broad issues, which KAPE views as important considerations as the study evolves. First, we suggest that since this is the first comprehensive study of the state employee pay plan in a number of years, that its conclusions be deliberately studied before action is taken. KAPE suggests that over the interim, a blue ribbon task force consisting of legislators, members of the administration and representatives of the state employee workforce be impaneled to review results of the study and report its recommendations for addressing issues raised in the Hay Report to the Legislature and the Governor. KAPE strongly believes that if we are to spend the time and money to conduct a study of this magnitude, then it ought to be used and not be consigned to a book shelf.

KAPE's Legislative Committee, comprised of all levels of classified state employees, has developed an 8-point plan for addressing some of the critical issues regarding state employee compensation. All of these concepts are tied to the <u>Rewarding</u> and <u>Recognition</u> principles. And, there are other possibilities that KAPE offers in the broader sense.

We submit to you detailed information on this 8-point plan; however, we wish to briefly highlight them and explain some other thoughts.

- Regarding wages and benefits: The attractiveness of public sector employment to many lies in its stability. KAPE believes that a permanent, progressive pay structure, such as step movement, establishes a degree of stability we call, "a standard of living" for a career-oriented employee. With step movement, there is a "known" factor that helps to eliminate the rigidity now in place, which creates problems in recruiting and retaining skilled workers.

  KAPE could support a "stretching" of the pay matrix to additional steps, an adjustment of the percentage gain per step (currently 2.5 percent) and granting step increases every two years if step movement was incorporated into state statute.

  Base Salary Adjustments should be incorporated into the state's annual budget as an additional hedge to keep state pay competitive. Along with incorporating a BSA into the budget, KAPE recommends a change in the formula for establishing the Base Salary Adjustment from the Consumer Price Index to the Employee Cost Index. Critics of the Consumer Price Index point to inaccuracies, which tend to lead to wage slippage; and consider the Employee Cost Index more reliable and reflective of the Social Security Administration COLA.

- Longevity Bonus: For the first time since its inception in 1987, the longevity bonus could increase by $10 per year of service from $40 to $50 for employees who have remained on the job for 10 or more years. It is our belief that it should not take 20 years to provide additional funding for this component of employee retention. Adjustments to the longevity bonus should be considered on a regular basis.

- Reclassification: KAPE is greatly disturbed by a trend identified in Phase 1 of the Hay Report, which notes that some agencies are seeking to declassify positions to gain some flexibility in offering wage and benefits packages. This alarming situation could be corrected with three components of the KAPE plan.

  There is a reason that agencies must become creative to attract and retain good workers. A possible solution is to conduct a systemic reclassification of all positions on a regular basis. Further, we suggest that to ensure that all positions are affected; at least one-quarter of all state classified positions should be evaluated on an annual basis. This means that each state position will be subjected to re-evaluation every four years to determine if its work role and rate of pay are consistent with market rates, turnover and recruitment when applied to private sector data. The Hay Report already has given meaningful data on which positions are market-competitive and which ones are not. We find this information useful.

Reclassification of Personnel: For many of the same reasons one would conduct an evaluation of positions, reclassification evaluations should be applied to individual employees every five years. The purpose of such an evaluation is to determine whether the employee and his or her position expectations are consistent with current work trends. We all must accept the fact that today's work environment is much different than the environment of a decade or two ago – and will be appreciably different in the decades to come.

- Recognition: Often, small courtesies reap great rewards, and actually do not fade over time despite societal changes. Employee incentives have transformed the corporate culture of our modern world, and range from the lavish and outlandish to a simple thank you. KAPE believes that if the employer recognizes an employee for a job well done, it will have an effect on whether that employee remains with the firm or moves on.

  KAPE suggests that the public sector could take a page from its corporate brothers in developing simple and cost-effective employee incentives.

  - A .3 percent annual set-aside of the state classified payroll to support professional development.
  - A cash incentive bonus of 10 percent of the dollars saved by an agency due to efficiencies suggested or performed by state employees.
  - Bonuses for new-hires who stay for more than 3 years.
  - High Cost-of-Living pay based on location.
  - Geographical pay.
  - The ability for an employee to sell back annual leave to his or her agency.
  - A gift from the state of Kansas to an employee denoting employment milestones (i.e. 10 years, 20 years, etc.).
  - Establish an independent Office of Inspector General to investigate instances of fraud and abuse in state government operations. This office would also assist state employees in addressing "whistle-blower" issues.
  - Additional annual and sick leave.
  - Establish career ladders.

- Endorse an evaluation process that encourages employee growth and is not punitive.

- Create an incentive program for retaining employees who have accumulated sufficient points to retire, but could opt to serve longer in state service.

These are some of many suggestions KAPE offers for consideration by your committee. In summary, KAPE urges the committee to:

- Consider appointing a blue ribbon task force to study the Hay Group report during the interim and recommend immediate and long-term solutions to the state pay plan issue.

- Consider all or part of KAPE's 8-point plan for employee wages and benefits.

- Embrace a philosophy that rewards and recognizes employees. If this is done well, then employees are likely to be retained.

Thank you for the opportunity to appear here. May I invite your questions?

# A Pay Plan for the 21st Century

Prepared by the Kansas Association of Public Employees
February 2007

**INTRODUCTION:** As discussion of improvement to the state employee pay plan continues, the issue of keeping state service competitive with the private sector is paramount. Atypical forces, such as an aging workforce, are coupled with typical reasons employees leave state service to find jobs in the private sector and puts extreme pressure on state agencies to recruit and retain first-rate employees.

According to the Kansas Department of Administration Division of Personnel Services (DPS),[1] some of the typical reasons for public sector workforce flight to the private sector are: Slippage of competitive wage rates due to the use of the Consumer Price Index (CPI) as the foundation for annual employee compensation adjustments; misplaced expectations on the part of newly-hired employees that result in 25 percent turnover ( there is a 57 percent of employee turnover occurring within the first five years of employment); and current compensation rates and the rigid system now in place, which create difficulties for agencies to recruit, retain and reward a qualified workforce.[2]

Recognizing that changes are needed to keep Kansas in step with an ever competitive job market, significant adjustments must be made to create an environment that does allow for the recruitment, retention and rewarding of a skilled workforce.

**EMPLOYEE WAGES AND BENEFITS:**

Currently, there are 13 "steps" and 34 pay grades to the state classified employee pay matrix.[3] "Steps" are 2.5 percent apart and the differential between grades is approximately 5 percent. According to DPS, the matrix works in tandem with the state's job classification system, with each job assigned a pay grade based on market data and alignment of job classes.

Sensing a significant disadvantage in hiring new workers, Steps 1-3 were eliminated from the matrix in February 2001. Presently, all "new hires" begin on Step 4, which is 15 percent "below market" wages for similar positions in the private sector. Following a six-month period in which a new-hire learns the position and becomes reasonably proficient, he or she is awarded an additional "step."[4]

While the newly-hired employee may enjoy a 5 percent increase in wages during the first year in state service, he or she may actually see a 1 percent increase due to an offset by the 4 percent KPERS deduction that takes effect after the employee's first year.[5]

**"STEP MOVEMENT:"** Clearly, if the state of Kansas is to remain competitive with surrounding states and the private sector, it must adopt a more aggressive pay plan. To achieve this, across-the-board progressive pay, such as step movement must be adopted into the state statutes instead of passed, ad hoc. To do so, establishes a "standard of living" for career-oriented employees who are recognized for years of satisfactory performance. By establishing across-the -board step adjustments there is a "known" factor, which would speak to the "inflexibility" issue identified by DPS.

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[1] Department of Administration, Division of Personnel Services, Overview of the State Employee Pay Plan, Aug. 7, 2006
[2] Ibid.
[3] Ibid.
[4] Ibid.
[5] Ibid.



Select Committee On
State Employee Pay Plan
2/9/07
Attachment 2

If step movement is incorporated into state statute, lawmakers could adjust the number of steps and the period in which the increase is granted. As an example: The new matrix could contain 20 steps instead of 13, an adjusted differential between steps from 2.5 percent to 4 percent and the 4 percent step adjustment granted every two years instead of annually. These proposed adjustments would ensure that step movement would be funded on a continuing basis with a minimal effect on the state budget.

**BASE SALARY ADJUSTMENT:** An across-the-board Base Salary Adjustment should be incorporated into the state's annual budget as part of a state employee pay plan. It is evident that the Consumer Price Index (CPI) no longer is an accurate measure of employee wages, and a more verifiable index, such as the Employee Cost Index (ECI) or incorporation of a portion of the annual Cost-of-Living Adjustment calculated by the Social Security Administration, would provide annual wage relief.

It is recommended that the Base Salary Adjustment be calculated at 75 percent of the recommended COLA calculated by the Social Security Administration, which was 4.1 percent in 2006 and 3.3 percent for 2007. Had this formula been used for Fiscal Year 2007, the BSA would have been 3.1 percent (75 percent of the 2006 calculation). The 3.1 percent calculation would have been within .5 percent of the ECI for 2005.[6]

**LONGEVITY BONUS:** Since 1987, employees with a minimum of 10 years of service, are eligible for a longevity bonus of $40 per year of service. The rate of the bonus has remained $40 until Governor Kathleen Sebelius proposed in her Fiscal Year 2008 Budget a $10 per year of service adjustment to $50. This bonus has been codified in state statute, and must remain so. To stay competitive in retaining career employees, adjustments to the longevity bonus should be considered on a regular basis. Also, consideration should be given to addressing the issue of employee flight at less than five years, by lowering the longevity bonus from 10 years to 5 years of service. Likewise, to encourage employees who have accumulated sufficient points to retire to remain in state service, raise the threshold from 25 years' of service to actual years of service.

The first three of these topics directly affect the pocketbooks of state workers. The remaining five are suggestions for addressing related employer/employee needs. The DPS report notes that agencies have "expressed disappointment and frustration with a lack of action to address these matters and have complained that the inflexibility of the system combined with a lack of funding has left them without options to address issues in the workforce."[7]

**RECLASSIFICATION OF POSITIONS:** Because of the stagnation of the current system, agencies have used the classification system to get around wage issues by reallocating positions to provide increases to employees.[8] This admission is significant and supports the need for a reclassification evaluation of all positions on a regular basis. It is suggested that at least one-quarter of all state classified positions be evaluated on an annual basis. This would mean that each state position would be subject to a classification/reclass evaluation every four years to determine if they are consistent in market rates, turnover and recruitment with the private sector.

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[6] Department of Administration, Division of Personnel Services, Overview of the State Employee Pay Plan, August 7, 2007, Attachment VIII

[7] Department of Administration, Division of Personnel Services, Overview of the State Employee Pay Plan, August 7, 2007

[8] Ibid.

In developing the reclassification methodology, DPS should eliminate the practice of readjusting the employee's step position in lieu of enhanced pay due to the range adjustment. As an example: A worker's reclassified job description may merit a promotion to three ranges higher than he or she was previously on. This promotion would result in a 15 percent salary increase. Typically, however, the employee is placed back one or two steps to relieve fiscal pressure. So, instead of continuing on Step 8, the employee was moved back to Step 6 or Step 5 to "balance" the fiscal impact of the reclassification.

This "balancing" method defeats the purpose of reclassification, which is to bring the pay matrix more into alignment with private sector wages. Once an employee has earned a step because of years of service, which translates into experience and proficiency, they should retain the step without regard to the possible promotion the reclassification would permit. A consequence of the continuation of the practice occurs in the most "at-risk" areas on the matrix (the first five years). If an employee is promoted within the first five years of service, but is relegated to Step 4, it is possible for he or she to be sharing the same salary as a newly-hired employee.

<u>RECLASSIFICATION OF EMPLOYEES:</u> In addition to a meaningful evaluation of positions, each employee should undergo a reclassification review every five years. This reclassification evaluation would supplement the annual or special evaluation. The purpose of the reclassification evaluation is to determine whether or not the employee and the position expectations are consistent with current trends. The review is an assessment of individual growth and a measure for professional reward.

<u>PROFESSIONAL DEVELOPMENT:</u> An annual set-aside of .3 percent of the state classified payroll would be used to support professional development of classified state workers. This needs to be a consistent, statewide, program.

<u>PAY FOR PERFORMANCE:</u> A narrowly-defined program, which would provide a .2 percent special pay incentive for classified workers who are required to perform extraordinary service under limited circumstances, should be initiated. Such special circumstances should be construed differently than In-Grade Pay criteria.

<u>COST SAVING INCENTIVES:</u> A statute should be approved that would grant employees a cash incentive bonus of 10 percent of the dollars saved by an agency due to efficiencies suggested or performed by such employees.

<u>SUMMARY:</u> The following eight suggestions support the concept of rewarding, recognizing and ultimately retaining state classified employees:

1. <u>STEP MOVEMENT:</u>
   a. Incorporate across-the-board step movement into state statutes,
   b. Increase the number of steps from 13 to 20,
   c. Adjust each step from 2.5 percent to 4 percent,
   d. Grant step increases every two years.
2. <u>BASE SALARY ADJUSTMENT:</u>
   a. Incorporate an annual across-the-board Base Salary Adjustment,
   b. Tie the funding formula for a BSA to 75 percent of the COLA of the Social Security Administration for the previous year.
3. <u>LONGEVITY BONUS:</u>
   a. Retain the Longevity Bonus in state statutes,
   b. Evaluate and adjust Longevity Bonus payments on a regular basis.
4. <u>RECLASSIFICATION OF POSITIONS:</u>
   a. Evaluate for reclassification one-quarter of all classified positions on an annual basis,
   b. Recommend adjustments to the Governor and the Legislature, accordingly,
   c. Eliminate the practice of moving employees "back" on steps to "balance" the fiscal impact of the promotion.
5. <u>RECLASSIFICATION OF EMPLOYEES:</u>
   a. In addition to annual evaluations, employees would undergo a reclassification evaluation every 5 years,
   b. This evaluation determines whether or not the employee and the position expectations are consistent with current trends. The review is an assessment of individual growth and a measure for professional reward.
6. <u>PROFESSIONAL DEVELOPMENT ASSESSMENT:</u>
   a. Establish a state-wide program of professional development funding consisting of .3 percent of the state classified payroll,
   b. Funds may be used to enhance educational or professional development of the workforce.
7. <u>PAY FOR PERFORMANCE:</u>
   a. A narrowly-defined opportunity for an agency to reward an employee a special pay incentive of .2 percent for performing "above and beyond" their typical duties for a specific period of time,
   b. This program would be different than the In-Grade Pay criteria.
8. <u>COST SAVING INCENTIVES:</u>
   a. A statute should be approved that would grant employees a cash incentive bonus of 10 percent of the dollars saved by an agency due to efficiencies suggested or performed by such employees.

# Profile of Classified and Unclassified Employees

| | Classified | Unclassified (total including Regents) | Unclassified (non-Regents) |
|---|---|---|---|
| Number of Employees | 21,933 | 15,217 | 3,522 |
| Average Age | 46 | 47 | 48 |
| Average Length of Service | 13 | 11 | 12 |
| Average Annual Salary | $33,476 | $56,326 | $50,454 |
| Percent Ethnic Minorities | 12% | 13% | 9% |

**Source:** SHARP (June 2006); Excludes legislators, temporary, and student employees.