Approved: February 14, 2007
Date

MINUTES OF THE SELECT COMMITTEE ON STATE EMPLOYEE PAY PLAN

The meeting was called to order by Chairman Pat George at 9:30 A.M. on February 12, 2007 in Room 519-S of the Capitol.

All members were present except:
Representative Lee Tafanelli- excused

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

Conferees appearing before the committee:
Gary Adkins, Executive Director of the State Employees Association of Kansas (SEAK)
Janet Palmer, SPHR, Human Resources Director, Kansas Department of Labor
Craig Kibbe, Assistant Director of Human Resources, Department of Corrections
Tina David, Human Resources Manager, Ellsworth Correctional Facility

Others attending:
See attached list.

The minutes of February 9, 2007 were distributed. Representative JoAnn Pottorff moved the minutes be approved, Representative Stan Frownfelter seconded the motion. The minutes were approved.

Chairman George introduced Gary Adkins, Executive Director of the State Employees Association of Kansas (SEAK). Mr. Adkins presented testimony on SEAK's concerns with the state employee pay plan in regards to the current conditions and their long term view of what the pay plan should look like. SEAK recommends the State:

1. Provide for step movement for all classified employees effective with the pay period beginning July 1, 2007
2. Provide for a 3% Cost of Living Adjustment (COLA) effective with the pay period beginning July 1, 2007
3. Establish a Legislative Interim Committee to guide the Division of Personnel Services in developing a long-term solution to pay system problems that have evolved over the years.
4. Establish, through legislation, a policy that calls for a systematic review of classifications and salaries on a basis not to span more than every three years.
5. Investigate means to fund these initiatives in the short and long-term. Attachment 1

A time of questions and answers followed Mr. Adkins presentation. Representative Ann Mah requested a comparison of the number of classified and unclassified personnel to those in surrounding states and would like to know what the average medium pay is. Legislative Research will provide the information.

Janet Palmer, Human Resources Director, Kansas Department of Labor presented testimony regarding concerns her department has including shrinking resources in terms of funding, upgrading skills and maintaining technical proficiency, the aging workforce, the major problems in the classification system, and low pay. Attachment 2

Craig Kibbe, Assistant Director of Human Resources, Department of Corrections, and Tina Davis, Human Resources Manager, Ellsworth Correctional Facility presented testimony on the difficulty they have in retention, recruitment, wages/benefits, employee relations and image of state employees. Attachment 3

Questions were asked following this presentations. Representative Ann Mah requested to know the percentage of classified personnel that are management and what the average salary is for management versus non-management. Legislative Research will provide that information.

The meeting was adjourned at 10:40 A.M. The next meeting is scheduled for Wednesday, February 14, 2007 at 7:45 A.M. in room 519-S.

HOUSE SELECT COMMITTEE ON
STATE EMPLOYEE PAY PLAN

GUEST LIST DATE February 12, 2007

Your Name	Representing
Howard Smith	Pittsburg State University
Craig Kibbe	KDOC
Tina Davis	KDOC
Janet Palmer	KDOL
Ken Otte	DPS
Kraig Knowlton	DPS
Jessica Racette	KDOR
Carol Reed	SRS
George Vega	D of A

S.E.A.K.
STATE EMPLOYEES ASSOCIATION of KANSAS

Testimony before the Select Committee
on State Employee Pay Plan
February 12, 2007

Mr. Chairman and members of the committee, I am Gary Adkins, Executive Director of the State Employees Association of Kansas (SEAK). SEAK, in existence since 1994, acts as an advocate exclusively for active and retired State of Kansas employees. I appreciate the opportunity to speak before the committee today.

My testimony today will focus on two of the association's concerns with the state employee pay plan. I will first address our view of current conditions and then move on to our long term view of what the pay plan should look like.

All of you have heard the results of the study conducted by the Hay Group. The only thing really surprising about the results is that there were no real surprises. Hay pointed out in their findings that the State of Kansas pay plan is seriously out of synch with the market, i.e., pay offered by large employers both private and public, in the central states.

If anything, our statistics show that conditions are worse than pointed out in the Hay Study. The most recent Central States Salary Survey shows that Kansas has risen from 21st to 17th in salary in the last year. I believe this is simply because four states failed to submit data this year. Notwithstanding this jump, the Kansas FY 2006 average salary of $33,476 is 16% below the $39,961 average salary of the reporting states. If you look at just the six states surrounding Kansas (Nebraska and Arkansas did not report), their average salary is $39,227. This puts Kansas at 17% below the surrounding states. While I hesitate to bore you further with statistics, there's a ton of it available to support our case. Raises for Kansas employees since 2001 have amounted to 13%. During this same period, the Cost of Living Index has risen 14.6%. Simply put, the American dream of doing a good job and getting financially ahead is simply not there for State of Kansas employees.

I wish to share a bit more information about the status quo that may be interesting to you. The Government Performance Project, a non-partisan, independent research program housed

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within the Pew Center on the States, evaluates how well state governments perform their basic management functions and explores how this research can be used by states to serve citizens better. While Kansas received an overall rating of B, it is criticized in the areas of employee retention and training. To quote their findings,

> *"The voluntary turnover of Kansas' classified workforce is among the highest in the nation. The state spends less than half the average amount of benefits per salary dollar (14¢ versus 33¢ per salary dollar), one of the lowest amounts spent in the nation."*

It should be noted that the Hay Study focused solely on salary, not total compensation. Had the study been broadened, the findings could have been much worse.

Kansas was also criticized for its lack of training and career planning. Again, to quote the report:

> *"The majority of training funds in Kansas are spent on a few agencies, with the agencies bearing the chief responsibility for developing programs and criteria. Some agencies offer programs while other agencies offer little to nothing. A very small percentage of state workers have some form of a career plan."*

I am addressing these independent findings because we believe that training is a key component of building a competent and successful state workforce. It will be essential if we are to modernize our classification and pay plan.

To summarize our current position, we are asking that the Legislature consider a 2.5% step increase beginning in FY 2008 accompanied by a 3% Cost of Living Adjustment. While this will not put the majority of State of Kansas employees in pay parity, it will certainly send a loud message that the State of Kansas, as an employer, is concerned about seeking and keeping an adequately paid workforce. There are other issues contained with the SEAK Legislative agenda for the 2007 session, but they are not pertinent to the matters at hand, i.e., severance and retiree pay issues.

In the interests of time, I now wish to more on to the second part of my presentation today; that being what SEAK views to be solutions in the long term. I don't pretend to be a compensation expert. I do have, however, a broad understanding of how the State of Kansas has handled salary over the years. I retired from the State of Kansas in 2002 after serving almost 38 years. In my last position, I served as a Public Service Executive IV directing an information systems facility serving a nation-wide base. Over these almost 40 years, I have witnessed what has worked and what hasn't. It is this experience I am using today to base my conclusions.

I have focused my research on two salary models. The first is the pay matrix approach used in Kansas for many years and the second being pay for performance. Again in the interests of time, I won't dwell on the mechanics of step movement other than to mention that the system used in Kansas is, by most standards, inadequate. Hay pointed out that the pay matrices studied have 13 steps exactly like the Kansas System. Kansas differed in that movement from Step 4 to Step 16 encompassed a 34% pay increase. Other plans increased, on average, over the steps by 50%.

What is good about step movement matrixes? First it is simple to administer. If someone does a satisfactory job, they get an increase of 2.5% up to a set maximum amount for a specific job. Next, budgeting for the matrix approach is predictable. Finally, employees as a group seem to like this approach. The most glaring disadvantage of the pay matrix approach is that a stellar performer will get exactly the same pay increase as the employee who is just barely breathing. I submit that if an agency has employees who are just barely breathing, they should treat it as a performance, not a pay issue.

It is important to note that whatever pay system is used, it is up to the employer to identify a set of organization-wide objectives that are measurable and be used for pay purposes. Given this philosophy, the State of Kansas should be considered as one employer, not a collection of 100 plus agencies and departments operating independent evaluation systems. At present, the State of Kansas allows individual agencies to develop their own individual evaluation systems with minimal standards rather than state-wide objectives.

I would now like to move on to pay for performance. In order to work effectively, pay for performance must have several components. First, pay for performance can be a powerful motivator if applied properly. To do so, however, it has to be consistently applied throughout the organization. For example, it simply won't work if an employee in the Department of Labor is given a 6% increase for accomplishing the same work as an employee in the Department of Commerce who received only 3%.

In order for pay for performance to work, an organization must do an outstanding job of establishing measurable and objective high-level goals. These goals should then be distilled down into sub-objectives for each agency or department and then further reduced to measurable performance standards individual employee. The key is that the measures must be consistent throughout the organization in order to tie them to a comprehensive pay system. This requires a high degree of centralization in the personnel management function. Presently, I don't believe that Division of Personnel Services has the resources to take on this task. As recently at five years ago, the number of DPS staff has been reduced by upwards of 75%. I am not criticizing DPS employees, they do an incredible job. I simply don't believe they could maintain a centralized pay for performance system with current resources.

The next feature of pay for performance is funding. There needs to be baseline salary increases for employees simply meeting standards that will be augmented by performance pay for overachievers. Bob Fulton, Managing Director of the Chatfield Group, stated in a 2004 article in *Workforce Management* magazine that it takes "a 3 percent to 4 percent difference in the amount of increase received by top performers vs. employees who merely meet expectations.

Another problem with pay for performance is that it can be devastating for morale. If the employer fails to set measurable goals in line with the organization's overall objectives or fails to sticks with objectives once they are established, it will create an environment in which one employee is pitted against another. Furthermore, if supervisors are not properly trained and thus ties a raise to subjective measures such as how they perceive "Good Old Joe" as a person rather than how he performs <u>*or*</u> to his political leanings, it will be devastating to morale and actually become a performance disincentive.

Given all the above, what does SEAK believe to be the solution. We agree the State of Kansas did not get into this condition overnight. It has been 20 years since there has been a comprehensive salary survey. It has been six years since step movement was stopped. To immediately and precipitously try to overcome the problems that have developed over many years would be fraught with problems.

The following summarizes our recommendations:

- Provide for step movement for all classified employees effective with the pay period beginning July l, 2007.
- Provide for a 3% Cost of Living Adjustment (COLA) effective with the pay period beginning July 1, 2007.
- Establish a Legislative Interim Committee to guide the Division of Personnel Services in developing a long-term solution to pay system problems that have evolved over the years. Issues to be addressed should include, but not be limited to:
  - Developing a system of consistent measurable objectives for establishing a set of statewide goals that may be distilled down to agency- and individual specific performance measures.
  - Developing a long-term business model that supports annual salary adjustments for employees meeting base performance standards.
  - Developing a bonus structure for augmenting salary on an annual basis for individuals significantly exceeding base performance measures.
  - Developing a state-wide program of career planning at the agency and individual level.
- Establishing, through legislation, a policy that calls for a systematic review of classifications and salaries on a basis not to span more than every three years.
- Investigate means to fund these initiatives in the short and long-term.

While we're not sure these are all the answers, we believe they are a good start. Again, it's important to note that what's allowed to occur over many years cannot be solved overnight. On behalf of the Board and membership of the State Employees Association of Kansas please accept our appreciation for the actions taken by Speaker Neufeld and the select committee to date. I also appreciate the time you have given me today for this testimony.

I'll be happy to address any questions you may have.

KANSAS
DEPARTMENT OF LABOR

Kathleen Sebelius, Governor
Jim Garner, Secretary

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Testimony before the
House Select Committee on Employee Pay
Janet Palmer, SPHR, Human Resources Director
Kansas Department of Labor
February 12, 2007

Representative George and Members of the Committee:

Thank you for the opportunity to appear today and share my thoughts and concerns about the State employee pay plan and Phase I of the pay plan study. I'd like to start by telling you very briefly about my professional experience and educational background so that you'll understand a little bit about where my perspective comes from. I have 30 years experience in the human resources field with slightly over half of that time spent in the public sector. Private sector HR experience includes working for a Fortune 100 company and a large utility company. My undergraduate degree is in communications and I hold a Masters degree in Public Administration from the University of Kansas.

When we look at the top challenges facing State government from an HR perspective, some issues seem readily apparent to me:

1. We face shrinking resources in terms of funding yet we must continue to find ways to provide better service to our customers—Kansas citizens. This means we must do a better job of attracting and retaining a skilled, committed workforce. We must change the perception of many bright, talented young people who believe that a career in State government and public service in general is a dead-end street—the thought that we're stodgy, stagnant, behind the times. We don't want to be a "last resort" employer.
2. Technology has changed the way we do our work and we are challenged to manage transitions from the old to the new technologies while maintaining productivity and service. Change is difficult for many people, especially so for some employees who may have spent many years doing the same thing. We must continually look for ways to upgrade skills and maintain technical proficiency.
3. We are an aging State workforce. Undoubtedly, you have all heard numerous stories about the wave of baby boomer retirements looming on the horizon, and it's a very real issue facing many organizations. The average age of employees in our agency is 50, with an average length of service of 17 years. FY 2006 statistics show that 41% of our current workforce is eligible for full retirement by 2011. This is a workforce planning issue facing many State agencies.
4. Another challenge we must address is a classification system with major problems. Over time we have seen a blurring of differentiation among classes and the classification system has been used as a substitute for pay increases. There is great disparity among agencies in the way classifications are utilized. A lot of work has been done over the past couple of years to develop a plan to cut the number of classifications in half and utilize

broad-banding concepts. This cannot happen, however, without a totally revamped compensation plan.

5. The biggest challenge is pay. Pay affects every other HR challenge—recruiting, retention, technology and training. My experience in both the public and private sectors has convinced me that, although many things go into creating a positive employment relationship—things such as strong leadership, meaningful work and good benefits—the one thing that can very quickly destroy morale and create apathy is the belief by employees they are not being compensated fairly for the work being performed.

Did the pay increases from the 2006 Session help? Absolutely. There was an excited buzz in the air, employees were very appreciative and we heard many positive comments. However, to be honest, there was a little bit of "it's about time" sentiment expressed, too. Some of the employees had been sitting on step 4 for several years and had actually seen their spendable incomes go down during this time. The talk has already started about what might happen this year.

From my perspective, the Hay Group's Phase I presentation contained no shocking revelations. I was very pleased at the large number (232) of benchmark positions and the 71% organizational response. This is an excellent response rate and adds greatly to the validity of the survey. I fully expected to learn that, generally, the average pay of State employees is below market. However, I was surprised to hear that fully 1/3 of State employees are 10-15% below market. That is significant. There were some other points made that are also worth noting:

- We should not be using "excellent benefits" as an excuse for below market pay. Particularly when it comes to a defined benefit retirement program (KPERS), the benefit is lessened because employees are asked to contribute. According to the Hay Group, in private industry most companies with a defined benefit retirement plan do not ask employees to contribute. I wasn't aware of that.
- We typically compare our pay plan to other states, but other states really aren't our competition when recruiting employees—local communities are. We rarely lose employees to the State of Nebraska or the State of Ohio, for example, but we do have to compete for employees with Blue Cross and Cessna and Stormont Vail. We must be competitive with those types of organizations in terms of pay and benefits.
- School district administrative and support personnel are paid better than State employees in comparable positions. We have heard about low teacher salaries for a number of years and the logical assumption would be that all school district employees have low pay. Finding out that we assumed wrong was a surprise.
- Although not a surprise, the comment that employees are usually more concerned with internal than external equity is important to remember. I think the majority of public employees have no realistic expectation that their pay will keep pace with private industry. They do, however, expect to see internal equity among State agencies, and particularly within their own agency's divisions and units and between similar classified and unclassified positions.

There is certainly no easy fix for the State's pay plan and I am not a compensation expert. Any totally new plan has huge implementation challenges, not only technically but also as a culture change and the possible perception by employees that they might be losing something, even if they're really gaining. A pay plan must work hand-in-hand with an admittedly cumbersome classification system and it would seem impossible to layer a new plan over the current system.

The most critical aspect of any new pay plan that might be developed is consistent funding. We've seen how inconsistent funding over time can erode a pay plan's effectiveness and there's no reason to think the result would be any different if a new pay plan was implemented without the necessary funding.

There are some radical steps that could be considered. For example, what if we abolished all steps and simply let the cost of living or some other indexing mechanism drive pay? Again, the key would be consistent funding. Or, what if we considered a dual system? Perhaps we look at a limited step system for non-managerial positions and a market-driven broadband system for career professional positions. Other than consistent funding, another critical key to success for this type of proposal would be some sort of mechanism to help ensure internal equity. Would either of these proposals be viable? I don't know, but I do think it's imperative to creatively consider what might at first glance seem to be totally unrealistic, unworkable ideas. If we are simply content to limit ourselves to what has been or what is traditionally done, or just provide small tweaks and adjustments, we may never get the larger issues resolved.

There are other HR issues that also warrant concern. Here are just two:

- Something that is certainly part of employee pay, and a part I think we must address, is to have employees in eligible positions start contributing to KPERS immediately upon employment. As it is now, employees must wait a year before the 4% KPERS contribution starts coming out of their paychecks. This means employees have less take-home pay after a year of working for the State than they did when they started. Even with a 2.5% step movement, it's a reduction in pay. Unless there is about a 6% increase in pay, the employee will lose spendable income after working for a year. For many entry level employees, single parents, anyone trying to help support a family working in one of the lower salary range positions, the loss of even a few dollars a pay period is significant.

- I am very disappointed that the State does not have a short-term disability program. The answer to that usually seems to be, "We have unlimited accrual of sick leave to be used in a short-term disability situation." That is true but let me give you an example of why this isn't always enough. We all earn 12 days of sick leave a year with no limit on accrual. If I am in an accident and unable to work for 3 months (approximately 60 working days), it would take me 5 years of never using any sick leave to have enough time to cover this situation. Our type of leave accrual policy, although very generous, is not a replacement for a bona fide short-term disability program, and it particularly affects less tenured employees and young families.

The comprehensive salary survey conducted in Phase I is an excellent start to restructuring the State's pay plan. Thank you for the opportunity to appear and express my thoughts and for your concern and efforts in helping research and develop a comprehensive pay plan that will enable us to attract, reward and retain exceptional employees. I will be glad to stand for any questions you may have.

KANSAS
DEPARTMENT OF CORRECTIONS

Kathleen Sebelius, Governor
Roger Werholtz, Secretary

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House Select Committee on State Employee Pay

Presenters: Craig Kibbe, Assistant Director of Human Resources
Tina Davis, Human Resources Manager-Ellsworth Correctional Facility
February 12, 2007

The top five challenges Human Resource Professionals face:

- Retention
- Recruitment
- Wages / Benefits
- Employee Relations
- Image of State Employees

How did the pay increases from the 2006 Session help our agency?

- Initially, the increases granted to the Corrections staff (6.5%) resulted in an increase in the flow of qualified applicants. At one point, all facilities were fully staffed – which has not happened in many years.
- Department wide, we have experienced a slight drop in our turnover rate. This rate includes both uniform and non-uniform staff.

Reaction to Phase I of the pay plan study:

- It validated that the State needs to implement a pay plan that can compete with the private sector as well as federal and local governments.

Suggestions for making the pay plan better:

- Implementation of a pay plan that services 30,000+ employees panning from entry level clerical to PhD. Level Engineering, must be easy to understand and provide for the ability to respond to changes in the market in a timely manner.

- Simply put, employees need to have faith that they are being compensated fairly, and to gain that trust they must understand their pay system. Although pay bands systems may be the trend, we would advocate for a system based on salary ranges and percentage increases, with the ability to re-assign positions based on market data and internal equity.

- Providing an annual increase based on cost-of-living, or market adjustment, sends a message to employees that the State values employees enough to maintain competitive wages.

Other Human Resources concerns:

- The State of Kansas should have a team of compensation and benefit analysts with the full-time job of monitoring the State Compensation and Benefits Program on an annual basis to assure that our wages and benefits remain competitive with our competitors.

- Healthcare costs- We need to continue to contract with health care providers who will provide low cost/high quality health care to the State employees.

- A State supported tuition reimbursement program would encourage young workers to begin their career with the State, and through educational opportunities, be eligible for promotional opportunities.