



COMMONWEALTH of VIRGINIA

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December 15, 2015

Dear Governor McAuliffe and Members of the General Assembly:

Section 2.2-1202 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 of those 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,

A handwritten signature in cursive script that reads "Sara R. Wilson".

Sara Redding Wilson

Enclosure

cc: The Honorable Nancy Rodrigues
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, 2015 (Revised August 10, 2015)	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 of those surveys were conducted using a methodology developed by the Joint Legislative Audit and Review Commission (JLARC).

JLARC completed a comprehensive, two-year study of the Commonwealth’s total compensation program, including salaries and benefits, in October 2008. This study included an evaluation of the competitiveness of the Commonwealth’s programs, an analysis of trends, and recommendations for appropriate changes. The Department of Human Resource Management provided assistance to JLARC in the review as well as comments on the findings.

METHODOLOGY

Since 1999, DHRM has not conducted detailed surveys 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.

In prior years' reports, the cumulative effect of market movement indicators and state employee salary increases since 1999 were compared to project the Commonwealth's current market position. The 2008 JLARC study provided a new benchmark against which subsequent salary changes have been measured.

This year, the Department of Human Resource Management gathered projections of average 2015-2016 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 Mercer Human Resource Consulting, WorldAtWork, the Hay Group, Towers Watson, Compensation Resources, and PricewaterhouseCooper, 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, a forecast from the Economic Research Institute, a Human Resource Association of the National Capital Area survey, and the 2014 Pay Structures and Practices Survey published by the National Compensation Association of State Governments (NCASG).

DHRM also compared the average salaries of Virginia state employees with salaries paid by other employers for comparable jobs. Twenty-five occupations were selected for the comparison based on their being representative of the array of state occupations. These occupations include 7.91% of classified state employees and 20 (35.7%) of the state's 56 occupational career groups.

Again this year, no resources were available to purchase private salary survey data. Because previously purchased surveys are too old to age reliably, this year DHRM used an Occupational Employment Statistics (OES) survey provided by the Department of Labor's Bureau of Labor Statistics. This survey compares Virginia state salaries with salaries in the private sector based on federal Standard Occupational Classification codes. However, because the latest data available was as of May 2014, aging the data was still necessary. DHRM aged the state salary data by 3.86%, the average amount of the fiscal year 2016 salary adjustments (a 2% general salary increase, a compression adjustment, a special 2% or \$1,000 special increase for high-turnover roles, and a special compression appropriation for the Department of State Police) implemented August 10, 2015. The private industry salary data was aged by the average market movement in 2014 and 2015, 2.88% and 2.94% respectively.

The OES survey does not fully account for differences in the number of employees at the various levels of work or their specific duties within an occupation. Therefore, caution should be exercised in basing decisions on data for individual jobs.

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 2016 would be as shown below.

National Compensation Consulting Firms:

<u>Firm</u>	<u>Average Increase</u>	<u>Period</u>
Mercer Human Resource Consulting	2.90%	Calendar Year 2016
WorldAtWork	3.10%	Calendar Year 2016
The Hay Group	3.00%	Calendar Year 2016
Towers Watson	3.00%	Calendar Year 2016
Compensation Resources	2.93%	Calendar Year 2016
PricewaterhouseCooper	2.97%	Calendar Year 2016

Other Sources:

<u>Source</u>	<u>Average Increase</u>	<u>Period</u>
ECI	2.00%	Sept. 2014–Sept. 2015
NCASG	0.83%	Fiscal Year 2016
HR Association, National Capital Area	3.15%	Calendar Year 2016
Economic Research Institute	2.70%	Calendar Year 2016

In 2014, the national compensation-consulting firms anticipated an average performance increase budget of 2.98% for calendar year 2015. This year, they report that increases in 2015 have actually averaged 2.94%, which is 0.04% less than last year's estimates. This year, the national compensation-consulting firms anticipate average performance increase budgets of 2.98% for calendar year 2016. The average for the additional sources is 2.17%, while the combined average for all sources in calendar year 2016 is 2.66%.

The 2014 survey findings reported that state employees' salaries would trail other employers' salaries by 24.82% if they did not increase in 2015. However, effective August 10, 2015, the Governor and General Assembly approved the following compensation changes: a 2% salary adjustment for state employees; a salary compression adjustment of \$65 (\$80 for sworn employees of the Department of State Police) per full year of service for eligible classified and other salaried employees (excluding faculty) with at least five years of continuous salaried service; an additional 2% salary adjustment for employees in roles identified as high-turnover in the 2013 statewide compensation study (\$1,000 if the high-turnover role was Security Officer I or Security Officer III); a special appropriation of \$3,675,000 for a salary compression plan for the Department of State Police; and adjustment of the Commonwealth's classified salary structure of 2% at the minimum and 2% plus \$2,400 at the maximum. The combination of these increases resulted in an average increase of 3.86%.

As a result of the August 10, 2015 increases to state salaries, the projected deviation at the end of 2015 is 20.19%. The 2015 survey findings indicate an additional 2.66% market movement in calendar year 2016. Therefore, based on the combined sources, if employees' salaries do not increase in fiscal year 2016, the resulting 2016 market deviation will be 23.38%. This figure takes into account the 13.37% deviation found by JLARC in 2008, the cumulative market movement since that time, and the Virginia employee salary increases in 2011, 2013, and 2015.

AVERAGE STRUCTURE ADJUSTMENTS

This year, information on average structure adjustments was provided by the National Compensation Association of State Governments (NCASG), WorldAtWork, the Human Resource Association of the National Capital Area, Mercer Human Resource Consulting, and Compensation Resources. These sources indicate that adjustments during 2015 averaged 1.98% (.04% more than the projected 1.94%), while employers expect 1.98% average adjustments in 2016.

<u>Source</u>	<u>Average Adjustment</u>	<u>Period</u>
NCASG	1.39%	Fiscal Year 2016
WorldAtWork	2.10%	Calendar Year 2016
HR Association, National Capital Area	2.35%	Calendar Year 2016
Mercer Human Resource Consulting	2.20%	Calendar Year 2016
Compensation Resources	1.85%	Calendar Year 2016

COMPARISON OF PRIVATE INDUSTRY AND VIRGINIA STATE EMPLOYEES' AVERAGE SALARIES

A May 2014 Occupational Employment Statistics (OES) survey by Standard Occupational Classification codes was used for comparison of Commonwealth salaries with salaries paid by private companies in Virginia. For the noted occupations, data for private Virginia employers' salaries was compared with average Virginia state salaries. DHRM aged the state salary data by 3.86%, the average amount of the fiscal year 2016 salary adjustments implemented August 10, 2015. The private industry salary data was aged by the overall average market movement in 2014 and 2015, 2.88% and 2.94% respectively.

The average salary deviation for the 25 occupations in the OES comparison was 21.2%. The comparison with the OES data indicated a slightly larger deviation than the estimate based on the JLARC findings and subsequent market movement (20.19% at the end of 2015).

Detailed information on the comparison is found on page 10 of this report. It indicates differences in the deviations among the various occupations. Also, the individual deviations are influenced by factors such as the level of work, internal alignment of jobs, varying geographical markets for the various jobs, and the different mix of responding employers from year to year. Therefore, caution should be exercised in basing decisions on data for individual jobs.

CONCLUSIONS

There are several measures of competitiveness that can be used to formulate a strategy for adjusting state employees' salaries, beginning in fiscal year 2016, to maintain or improve the state's competitiveness:

- ✓ An adjustment of 2.66% would equal the expected market movement in calendar year 2016.
- ✓ Increasing state salaries by 11.1%, the total compensation deviation identified by JLARC in 2011, would reduce the Virginia total compensation deviation to the amount of 2009, 2010, 2011, 2012, 2013, 2014, 2015, and 2016 market movement, adjusted for Virginia state employees' salary increases, (23.38%), assuming that other employers change total compensation at the same rate as they change salaries.
- ✓ A 20.19% increase would raise total compensation to equal the market at the end of calendar year 2015.
- ✓ Increasing state salaries by 13.37%, the salary deviation identified by JLARC in 2008, would reduce the Virginia salary deviation to the amount of 2009, 2010, 2011, 2012, 2013, 2014, 2015, and 2016 market movement, adjusted for Virginia state employees' salary increases, (23.38%).
- ✓ A 23.38% increase would raise state salaries to equal the market in December 2016.

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

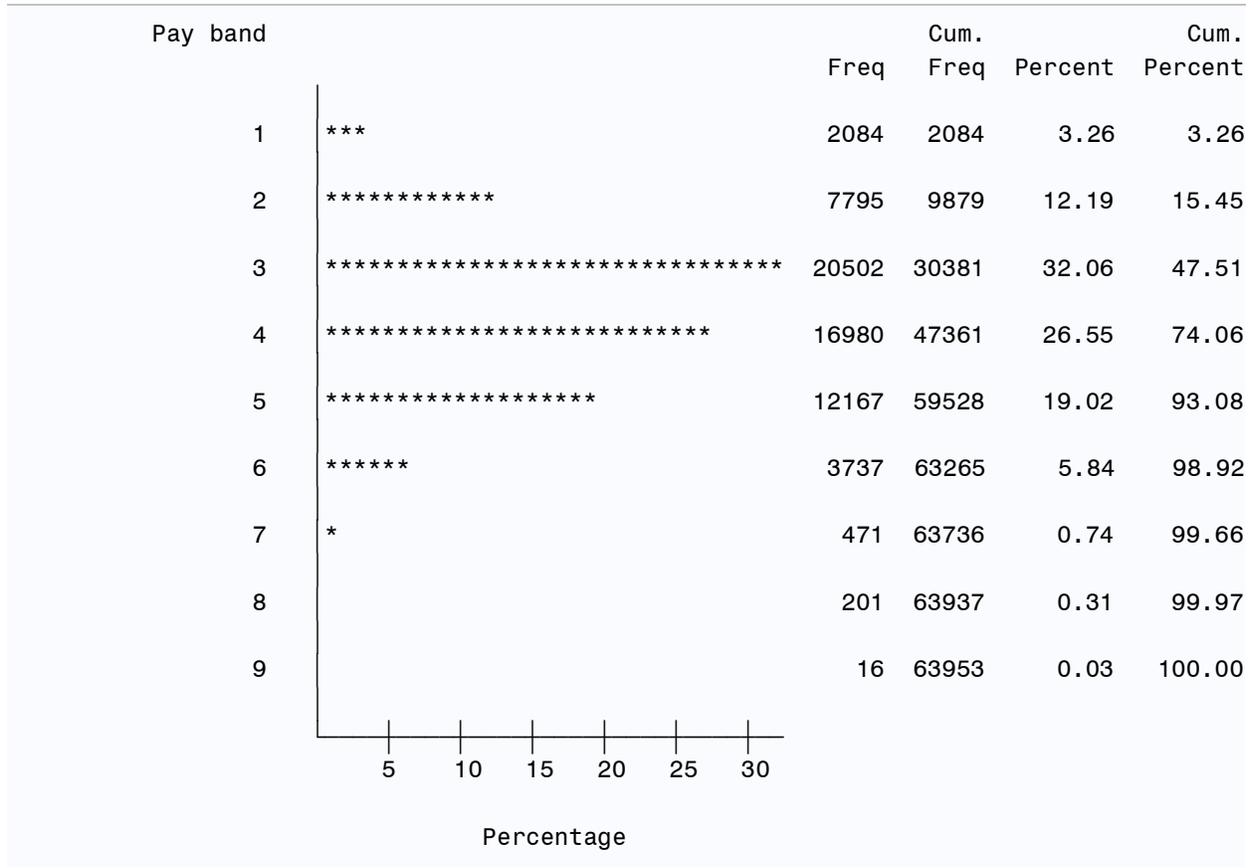
EFFECTIVE NOVEMBER 25, 2015

STATE (SW) PAY BANDS		
Effective 11/25/15		
RANGE		
Pay Band	Minimum	Maximum
1	\$15,992	\$38,820
2	\$20,894	\$49,370
3	\$24,969	\$58,146
4	\$32,619	\$74,617
5	\$42,614	\$96,134
6	\$55,672	\$124,244
7	\$72,731	\$160,972
8	\$95,013	\$208,950
9	\$124,128	MARKET

NOVA (FP) PAY BANDS		
Effective 11/25/15		
RANGE		
Pay Band	Minimum	Maximum
1	\$15,992	\$50,466
2	\$20,894	\$64,181
3	\$24,969	\$75,590
4	\$32,619	\$97,002
5	\$42,614	\$124,974
6	\$55,672	\$161,517
7	\$72,731	\$193,167
8	\$95,013	\$250,740
9	\$124,128	MARKET

NOTE: Salary ranges effective November 25, 2015 were adjusted August 10, 2015, as authorized by Chapter 665, 2015 Acts of Assembly.

DISTRIBUTION OF STATE EMPLOYEES
BY PAY BAND
SEPTEMBER 1, 2015



**COMPARISON OF PRIVATE INDUSTRY AND VIRGINIA
STATE EMPLOYEES' AVERAGE SALARIES
(AGED FOR SEPTEMBER 2015)**

Occupation	Private Industry Average Salary	Average Virginia Employee Salary	Deviation
Truck Driver, Light	29,449	23,639	-24.6%
Cook	26,865	25,581	-5.0%
Security Guard, Unarmed	33,823	29,725	-13.8%
Laboratory Aide	52,810	43,330	-21.9%
Mail Clerk	28,761	28,582	-0.6%
Cashier	26,304	28,821	8.7%
Secretary	36,417	37,171	2.0%
Yard Laborer/Janitorial Supv	32,758	30,519	-7.3%
Maintenance Electrician	50,575	46,155	-9.6%
Marketing Specialist	84,355	54,018	-56.2%
Medical Lab Tech	58,824	58,037	-1.4%
Accountant	83,604	60,405	-38.4%
Social Worker (MSW)	47,716	52,221	8.6%
Employee Training Specialist	74,073	58,297	-27.1%
Staff RN	67,698	64,009	-5.8%
Internal Auditor	83,604	60,405	-38.4%
Chemist	89,957	67,145	-34.0%
Attorney	145,224	80,138	-81.2%
HR Admin Supv	133,300	107,287	-24.2%
Environmental Engineer	108,012	67,748	-59.4%
Architect	87,924	86,412	-1.8%
Physical Therapist	90,254	88,323	-2.2%
Systems Analysis Supv	104,677	78,061	-34.1%
Data Base Administrator	96,713	83,431	-15.9%
Generic Engineer Supv	160,631	110,279	-45.7%
Average			-21.2%

NOTES:

- Occupations were selected to represent a cross-section of state jobs. Of 63,953 classified employees on September 1, 2015, 5,057 (7.91%) occupied positions with federal Standard Occupational Classification codes corresponding to these 25 occupations.
- Data for these occupations is as of May 2014 and was aged by the overall average market movement in 2014 (2.88%) and 2015 (2.94%). Caution should be exercised in basing decisions on data for individual jobs.
- Virginia state employees' average salaries reported by the Bureau of Labor Statistics were aged by 3.86%, the average amount of the fiscal year 2016 salary adjustments implemented August 10, 2015.
- 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.