CONTAINS PROPRIETARY INFORMATION

DRAFT III

Commonwealth of Kentucky

Compensation Analysis Review Of All Job Classes

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HayGroup

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I. Executive Summary

Classification and Pay Project Summary

Hay - with great help on this project from Kentucky personnel professionals, **studied**:

- 1257 occupied job classes (of 1700). About 400 are vacant and unstudied. The study covered only classified and unclassified jobs subject to KRS 18A.
- Responses to computer scored job questionnaires (KJAQ's) furnished by 5800 employees.
- Kentucky pay levels compared to those of area employers competing for the same talent.
- Benefits in a separate study to be completed in January 1997.

We **Found**:

- Internal equity, that is the extent that average salaries increase with added job responsibilities is moderate, but could be improved, based on an analysis of 240 benchmark jobs.
- Pay range midpoints within 8% of market median/average levels - good external competitiveness.
- Pay ranges which are too long to allow competitive hire-in rates at range minimums. They also enable very high salaries to a few long service employees - higher than market norms.
- About 160 of the filled job classes may be good candidates for consolidation with others. Personnel staff believe some 250 vacant classes could be consolidated for a total reduction of about 400. Action on these consolidations should be taken after review with affected Agencies .

I. Executive Summary (cont'd)

We Recommend:

- Classifications and pay ranges which are equitable - in compliance with House Bill 268.
- Shorter pay ranges, more in line with market norms.
- Range adjustments every two years to stay competitive with relevant labor markets.
- Reducing the annual increment to 3.5% - and then replace it with salary adjustments which vary with labor market movements and budgets.
- Rewarding long service employees (at 16, 20, 25, and 30 years of service) with a lump sum bonus of $100 per year of service. (Service Recognition Award)
- Paying increases in lump sum form to employees now at or above their salary range maximum.
- Caution with incentive pay until employees are comfortable with new work processes and efficiency measures flowing from EMPOWER Kentucky.
- Transition measures for new salary ranges including:
- Gradual shorting of pay ranges over 3 years.
- Raising all employees at least to the minimum of their new salary ranges.
- Increasing the pay of experienced employees paid relatively low in range, a "compression" adjustment.
- Capping increases in 1997 at 15%, unless a larger increase is needed to bring someone up to their range minimum.
- Invest 6.3% of payroll in annualized adjustments. This includes providing lump sum payments to employees whose salaries exceed their recommended salary ranges.

I. Executive Summary (cont'd)

We have or will transfer to the Personnel Cabinet:

- As required by House Bill 268 a nationally recognized job evaluation method which equitably sets jobs in salary grades based on skill, effort, responsibility and working conditions.
- Computer software which will cut the time needed to classify new or existing jobs from weeks to minutes - and will support EMPOWER Kentucky's emphasis on speed and efficiency in government operations.

To enhance speed and efficiency of government services, we urge changes to statute and rule in areas of:

- Salary range maximums
- Agency flexibility in making initial job offers
- Creating lump-sum service Recognition Awards
- Converting distinguished Service Awards to lump-sums only
- Hearings and appeals on pay and classification matters
- Pay increases on promotion, reallocation

Major impacts of Hay's recommendations on Kentucky employees are summarized on the following page.

I. Executive Summary (cont'd)

Recommendations Affecting:	Advantages	Areas of Concern
Longer Service Employees	• Service Recognition Awards. • Compression Adjustments give equity in new salary ranges.	• Real salary range maximums will replace salary rate raises with lump sums • Employees over 90% of their new range midpoint will not receive equity adjustments
New Employees	• Major improvement to range minimums give immediate, large increases to many.	• Consolidation of classes removes opportunities for "promotion" to a poorly defined higher class.
Managers and Agencies	• Able to offer more competitive salaries to experienced new hires. • Less time training and promoting raw talent.	
All Employees	• Speedy, computer aided classification decisions. • Market driven pay increases.	• Less formal and frequent appeal of disputed classification decisions

II. Introduction

- EMPOWER Kentucky, Classification and Pay
  - EMPOWER Kentucky challenges the Commonwealth to increase operating efficiencies and to improve customer service. These general objectives require business process changes which state employees must embrace. These changes include **internal** business processes such as classification and pay determination. We cannot achieve the full benefits of EMPOWER Kentucky with a double standard for business process and their supporting work cultures. Internal processes -- the Commonwealth's human resources systems are key examples -- must be as efficient and customer responsive as the external processes which directly touch citizens.

    Thus, the modernization of classification and pay processes should be seen as an integral part of EMPOWER Kentucky.
- This study covers classified and unclassified employees subject to the provisions of KRS 18A. It deals only with pay and classification issues. Benefits are studied in a companion project to be completed in January 1997.

II. Introduction (cont'd)

- This report summarizes results of a study of classification and pay. It also describes tools and processes with which Hay has -- or will shortly -- equip the Personnel Cabinet to operate a more modern, practical personnel system adapted to support improvements flowing from EMPOWER Kentucky. These include:

  1. A robust job evaluation system which conforms to the specifications of House Bill 268 (Regular Session 1996)
  2. A Kentucky Job Analysis Questionnaire (KJAQ) which involves employees directly in furnishing both basic information on their job content and basic analysis and interpretation.
  3. An algorithm for creating a job evaluation from employee responses to KJAQ items.
  4. Computer software for quickly producing results from the KJAQ . These results are checked by human resources professionals and local management before implementation. Computer technology assures consistent valuing of KJAQ responses across all Departments. Speedy, high quality answers to classification questions help support an EMPOWER Kentucky culture which features speedy, quality responses to customers. The answers may not always be those hoped for, but they will be prompt, consistent and fact-based.

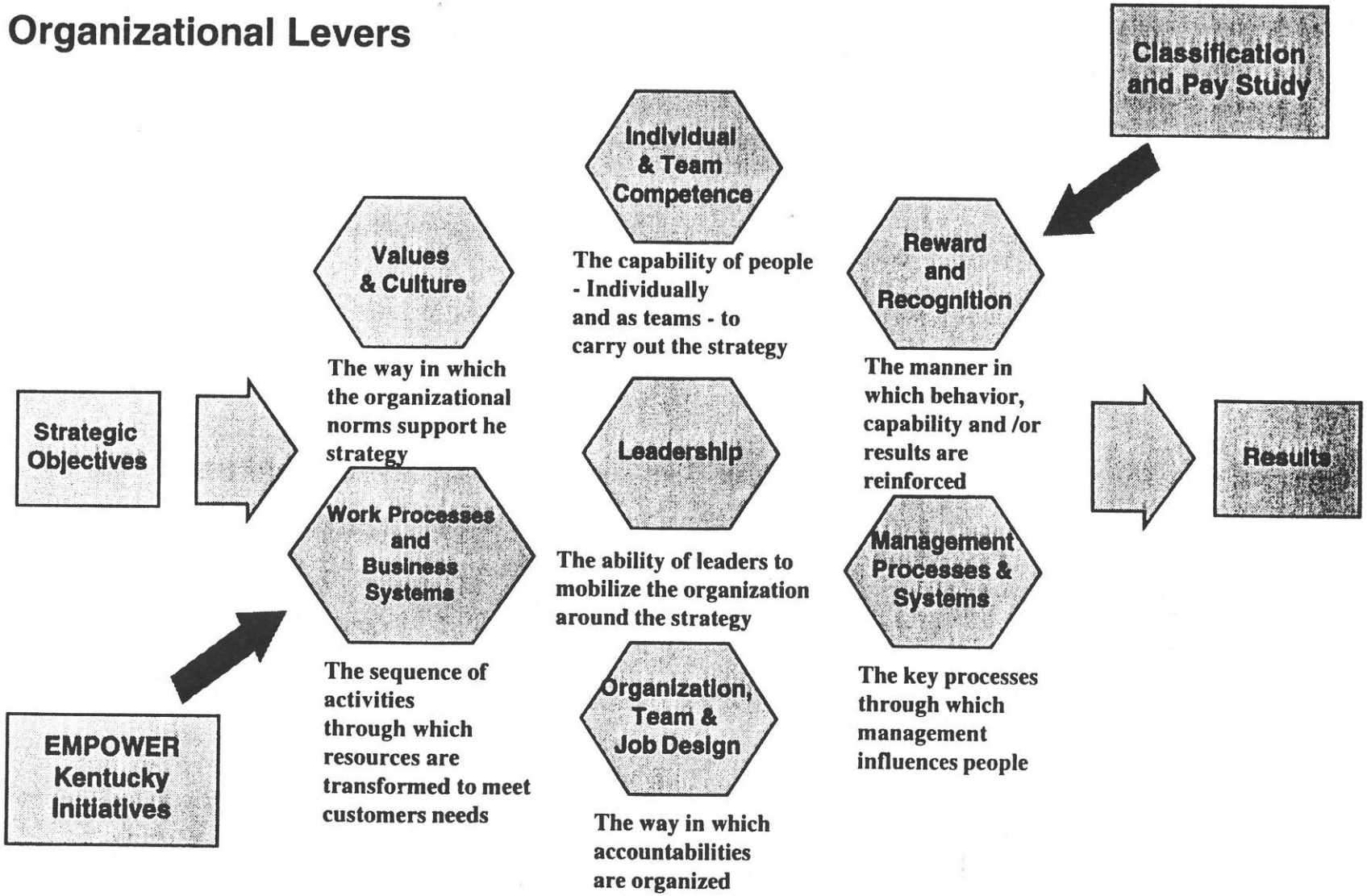
II. Introduction (cont'd)

- Timing Changes in Pay Delivery Processes to Support EMPOWER Kentucky
  - EMPOWER Kentucky will engage the Commonwealth in an integrated change process (see the model on the following page). Reward and Recognition are trailing edge issues in this time sequence. Changes in business systems, development of measures of customer satisfaction and process effectiveness must come before wholly revised reward programs.

    Such revisions are likely to feature contingent pay for individual or team level for customer satisfaction, efficiency improvement, and service quality. Until these new measures are fully understood and seen as legitimate, a pay program based on them will not be accepted.
- This report recommends changes to the classification structure and overall reward opportunity. Hay recommends pay ranges - but we believe most aspects of pay delivery within those ranges need to stay close to current practice. Major changes such as team incentives, pay for skill, other variable pay, pay for performance, pay for competencies, etc. may give useful support for new business processes. However, they should wait for those processes to be fully defined and their results measured (in ways credible with employees) before they are pursued.
- Hay also recommends that the Commonwealth develop a process to fully identify and address any potential uncertainties or conflicts that may arise among conclusions and recommendations between this study and the Empower Kentucky initiatives.

Hay's Integrated Approach: Organization Model

Organizational Levers



III. Project Methodology

- Benchmark Job Evaluation
  - 240 Commonwealth positions that represent a broad spectrum of job classes were selected by Commonwealth personnel staff to serve as key project benchmarks.
  - Three committees consisting of Commonwealth employees collectively evaluated all 240 benchmark positions using current job/role documentation and the Hay Guide Chart-Profile Method of Job Evaluation.
  - Hay Consultants assisted the committees in a final review of all benchmark evaluations to ensure reasonable evaluation patterns.
  - Once the evaluation process was completed, the relationship of positions down and across functional areas based on the level of role complexity was established.
  - A statistical job evaluation algorithm was then developed which relates Questionnaire (KJAQ) responses from incumbents in benchmark jobs to the benchmark evaluations.

III. Project Methodology (cont'd)

- Non-benchmark job evaluation
  - All remaining (1,000+ non-benchmark) jobs were evaluated using this job evaluation algorithm. The three evaluation committees used the following process:
    - Initial focus on evaluation generated by **average/central tendency** response sets
    - Evaluations compared to relevant benchmarks
    - Initial evaluations then sorethumbed on a family-by-family basis after all jobs in a family have been evaluated
    - Obvious individual outliers set aside for later analysis or additional data collection
    - Final sore thumb review of all jobs after family-by-family review
  - Final evaluation decisions are based on:
    - Incumbent and Supervisor opinions of the job (per the KJAQ)
    - Personnel review of algorithm generated evaluations to ensure across organization consistency
    - Relationships to benchmark evaluations
    - Career path and boss/subordinate evaluation relationships
    - Commonwealth's job measurement expertise
    - External references

III. Project Methodology cont'd)

- Grade Structure Recommendations
  - All benchmarks were grouped into one of two categories depending on their total point value:
    - Professional (equal to or greater than 240 total points)
    - Support/Technical (less than 240 total points)
- Grade structure recommendations were created for both professional and support/ technical positions based on the internal relationship of all benchmark job classes.
- Compensation Analysis
  - *Internal Equity Analysis*
    - We assessed the relationship of benchmarks at various point levels based on base salary levels.
  - *Average External Analysis*
    - We reviewed the competitiveness of benchmark average base salary values against relevant market comparators.
- Salary Range Recommendations
  - Salary range recommendations were created based on current market values for each recommended grade level.

III. Project Methodology (cont'd)

- Pay Delivery Criteria
  - Once salary range recommendations were determined, we established salary increase criteria for all Commonwealth employees . Our criteria was based on:
    - Bringing all salaries up to the recommended range minimums;
    - Relieving compression within the recommended salary range for long tenured employees relatively low within range;
    - Providing an annual increment to current base salaries, where appropriate.
    - Allowing for a lump sum increase (outside of base salary) for individuals whose salaries exceed the recommended range maximum.
    - Providing a service recognition award which provides a lump sum increase (outside of base salary) for individuals reaching defined years of service milestones.
  - We estimated the overall dollar impact associated with each of the above salary increase criteria.
- Based on this pay delivery criteria, we then established cost estimates of program implementation.

IV. Compensation Analysis for Benchmark Classes

Summary of Evaluations

- *Appendix A* displays the evaluations assigned, in descending order, to each Commonwealth benchmark position using Hay measurement techniques. Each evaluation is composed of four factors:
  - **Know-How** is the sum total of every kind of skill, however acquired (i.e., through education, training, on-the-job, etc.), necessary for acceptable job performance.
  - **Problem Solving** measures the intensity of the mental process which utilizes Know-How to identify, define and resolve problems. It is the original, self-starting thinking required by the job.
  - **Accountability** represents the measured effect of the job on end results and the answerability for an action and its consequences.
  - **Special Conditions** are the relatively enduring elements or conditions of a job that cannot be eliminated even when all necessary precautions have been followed.

IV. Compensation Analysis for Benchmark Classes (cont'd)

Survey Techniques

- We matched Commonwealth benchmark positions to jobs within the following market compensation surveys:
  - Professional
    - Kentucky Statewide Survey
    - Kentucky Other States Survey
    - Georgia Southwestern Survey
    - Southeastern States Survey
  - Support/Technical
    - Kentucky Statewide Survey
    - Jefferson County Survey
    - Greater Area Lexington Wage Survey
    - Bureau of Labor Statistics All Positions Kentucky Survey

IV. Compensation Analysis for Benchmark Classes (cont'd)

Survey Techniques (cont'd)

- We established market target values using regression analysis for both professional and support/technical positions.
  - The market target value is based on market averages. The 75th and 25th percentiles were created around the market target based on calculated differences between quartiles and average values within the "Kentucky Statewide Survey".
- The professional market target was derived from both the "Kentucky Statewide Survey" and the "Kentucky Other States Survey".
  - While some of the professional incumbents at the Commonwealth may have a broader recruiting market that extends outside of Kentucky boundaries, a large number will be recruited from the local Kentucky area. Therefore, 70% of the market target value is derived from the local portion of the Kentucky survey and 30% from the national portion of the Kentucky Survey.
  - We did not use the results from the other national surveys, i.e. "Georgia Southwestern Survey" and "Southeastern States Survey" in calculating the professional market target value because all participating states within these surveys are participants within the "Kentucky Other States Survey" and the results of those surveys were generally consistent with the results shown within the Kentucky Survey.

IV. Compensation Analysis for Benchmark Classes (cont'd)

Survey Techniques (cont'd)

- The support/technical market target was derived from the "Kentucky Statewide Survey", "Greater Lexington Area Wage Survey", "Jefferson County Survey" and "Bureau of Labor Statistics (BLS), All Positions, Kentucky Survey".
  - Since the "Kentucky Statewide Survey" contained the majority of all job matches, 70% of the support/technical market target value is derived from this survey. The other 30% is explained as follows:
    - 10% due to the "Lexington Survey";
    - 10% due to the "Jefferson County Survey";
    - 10% due to the "BLS, All Positions, Kentucky Survey".
  - Only local market surveys were utilized in the development of the support/technical market target value because positions at this level are usually recruited from a local market area.
- All market data has been updated to January 1, 1997 by 4% annually for professional level positions (greater than or equal to 240 points) and 3% annually for support/technical level positions (less than 240 points).

IV. Compensation Analysis for Benchmark Classes (cont'd)

Grade Structure Recommendations

- Grades were assigned based on total evaluation point levels.
- Total points for Commonwealth professional benchmarks range from 1260 to 226 total points for professional grades A through J. Support/Technical grades J through R range from 265 to 55 total points. Grade J serves as the crossover between the professional and support/technical grades.
- The *following* page displays both the professional and support/technical grade structure as well as corresponding total point spreads associated with each grade. *Appendix B* shows the positioning of each grade break in relation to benchmark evaluations.

RECOMMENDED SALARY GRADE ARCHITECTURE

Professional Positions

Grade	Minimum	Midpoint	Maximum	Percent Spread
A	1051	1156	1260	20%
B	881	966	1050	19%
C	741	811	880	19%
D	616	678	740	20%
E	526	571	615	17%
F	441	483	525	19%
G	361	401	440	22%
H	311	336	360	16%
I	266	288	310	17%
J	226	246	265	17%

Support/Technical Positions

Grade	Minimum	Midpoint	Maximum	Percent Spread
J	226	246	265	17%
K	194	210	225	16%
L	160	177	193	21%
M	135	147	159	18%
N	114	124	134	18%
O	96	105	113	18%
P	81	88	95	17%
Q	66	73	80	21%
R	55	60	65	18%

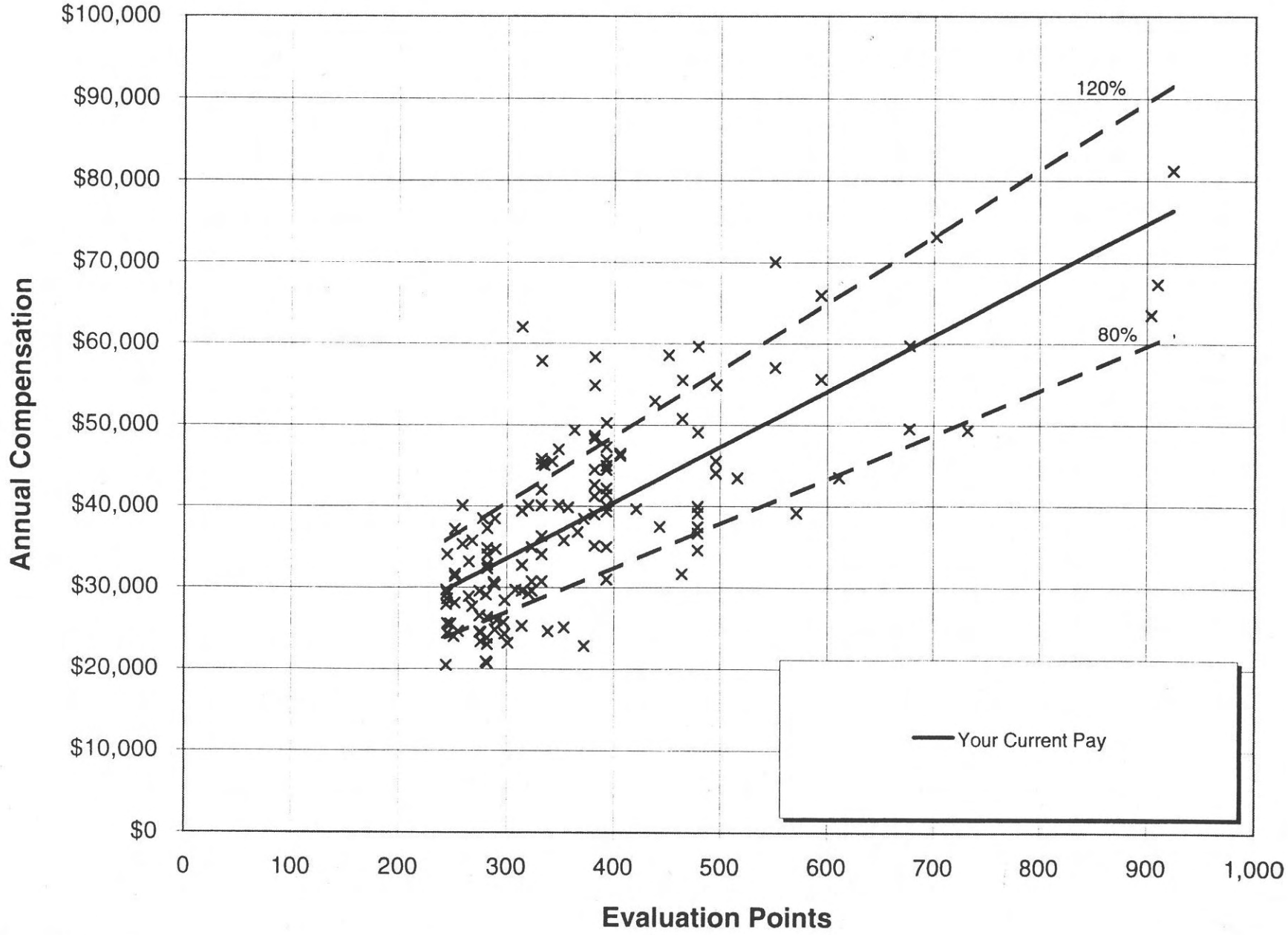
IV. Compensation Analysis for Benchmark Classes (cont'd)

Internal Equity -Professional

Internal equity is the extent to which actual pay tends to increase with increased job accountabilities, as measured by a job evaluation system.

- The *following* page displays a graph that represents the base salary practice for professional benchmarks at the Commonwealth.
- Each "x" represent average actual salaries of Commonwealth benchmarks with the practice line reflecting the central line of tendency among these values. The lines labeled 120% and 80% represent the normal range of dispersion around the practice line.
- Generally, the positions appear to be internally equitable, with salaries increasing as point levels increase. Eighty-six of the 133 professional benchmark positions fall within normal lines of dispersion around their base salary practice.
- However, there are cases where jobs with significantly different pay levels have very similar evaluation point values. Conversely, there exist jobs with very similar pay levels evaluated at significantly different point values.
    - For example, the Occupational Therapist Supervisor position has an average salary that is approximately $20,000 higher than an Industrial Development Agent. Both jobs are currently evaluated at 382 points.
- *Appendix C* lists the positioning of each benchmark relative to their respective salary practice value and displays the individual outliers.

State of Kentucky
Professional Benchmarks - Internal Equity



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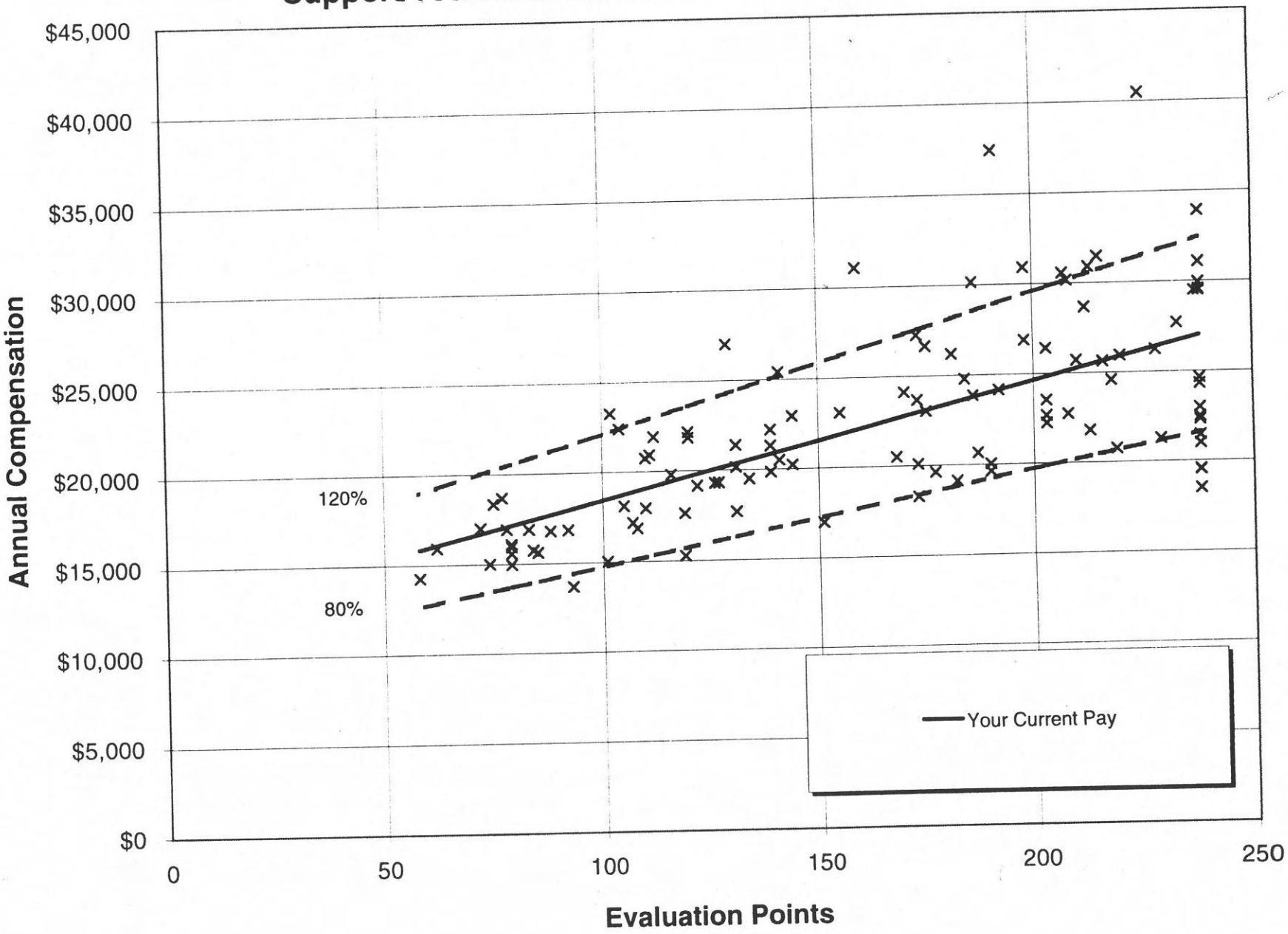
IV. Compensation Analysis for Benchmark Classes (cont'd)

Internal Equity - Support/Technical

- The *following* page displays a graph that represents the base salary practice for support/technical benchmarks at the Commonwealth.
- Generally, the positions appear to be internally equitable, with salaries increasing as point levels increase. Eighty-six of the 107 support/technical benchmark positions fall within normal lines of dispersion around their base salary practice.
- As in the case of the Professional benchmarks, there are cases in which there is a wide variance between pay for jobs at similar evaluation point levels and between evaluations for jobs at similar pay levels.
- *Appendix D* lists the positioning of each benchmark relative to their respective salary practice value and displays the individual outliers.

State of Kentucky

Support/Technical Benchmarks - Internal Equity



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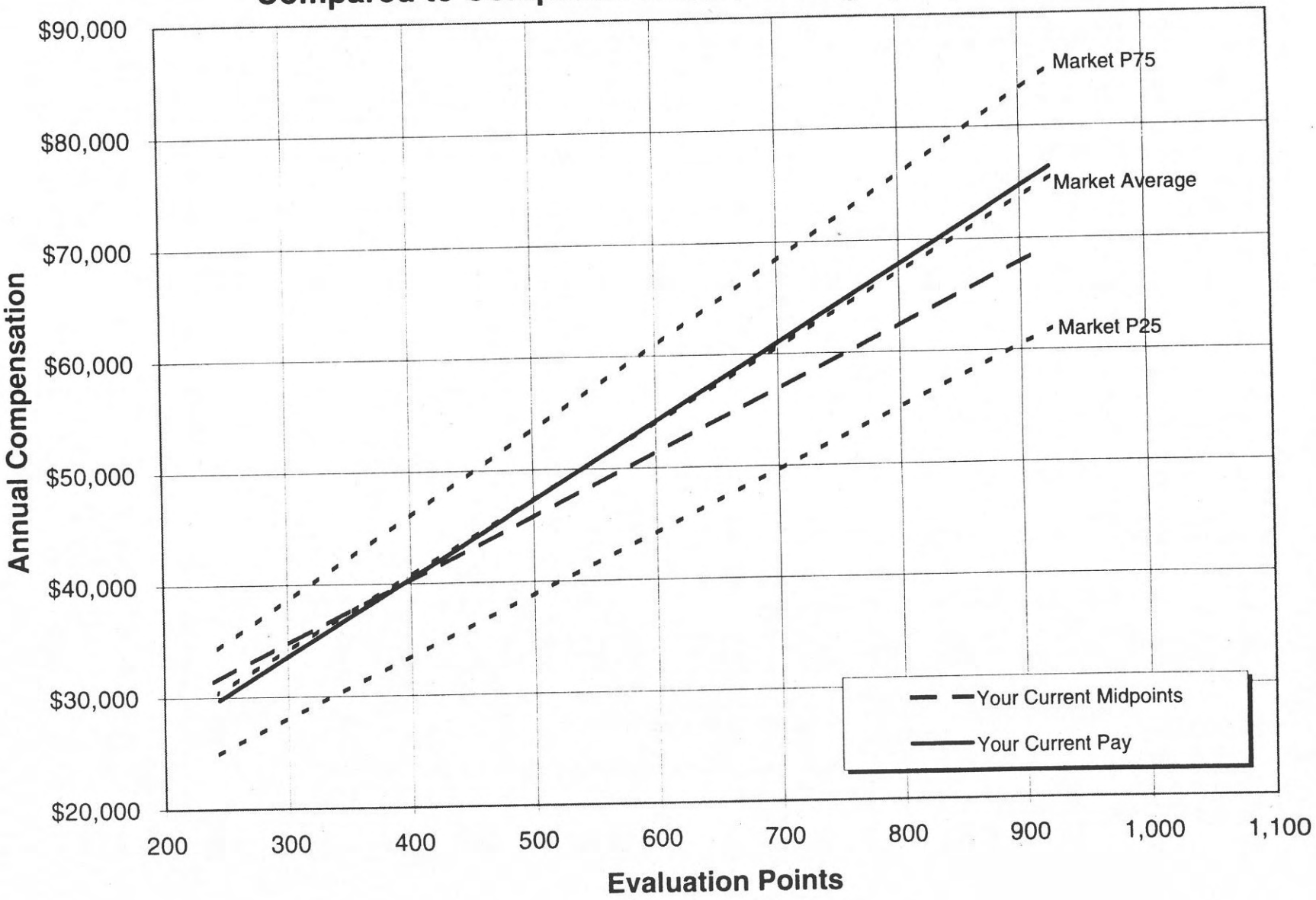
IV. Compensation Analysis for Benchmark Classes (cont'd)

Base Salary Market Comparisons - Professional

- The chart on the *following* page shows the Commonwealth's base salary practice and salary range midpoints for professional benchmark positions compared to base salaries of the professional target market.
- Overall, Commonwealth benchmark average salaries generally approximate the market average with wide variances for individual benchmarks. Most of the professional benchmarks fall below 400 total points.
- Regressed benchmark 1996 midpoints range from approximately 7.5% above the market average at the entry professional level to 7.7% below the market average at the senior professional level.

State of Kentucky

Current Pay and Midpoints of Professional Benchmarks Compared to Composite Market Average (Projected to 1/1/97)



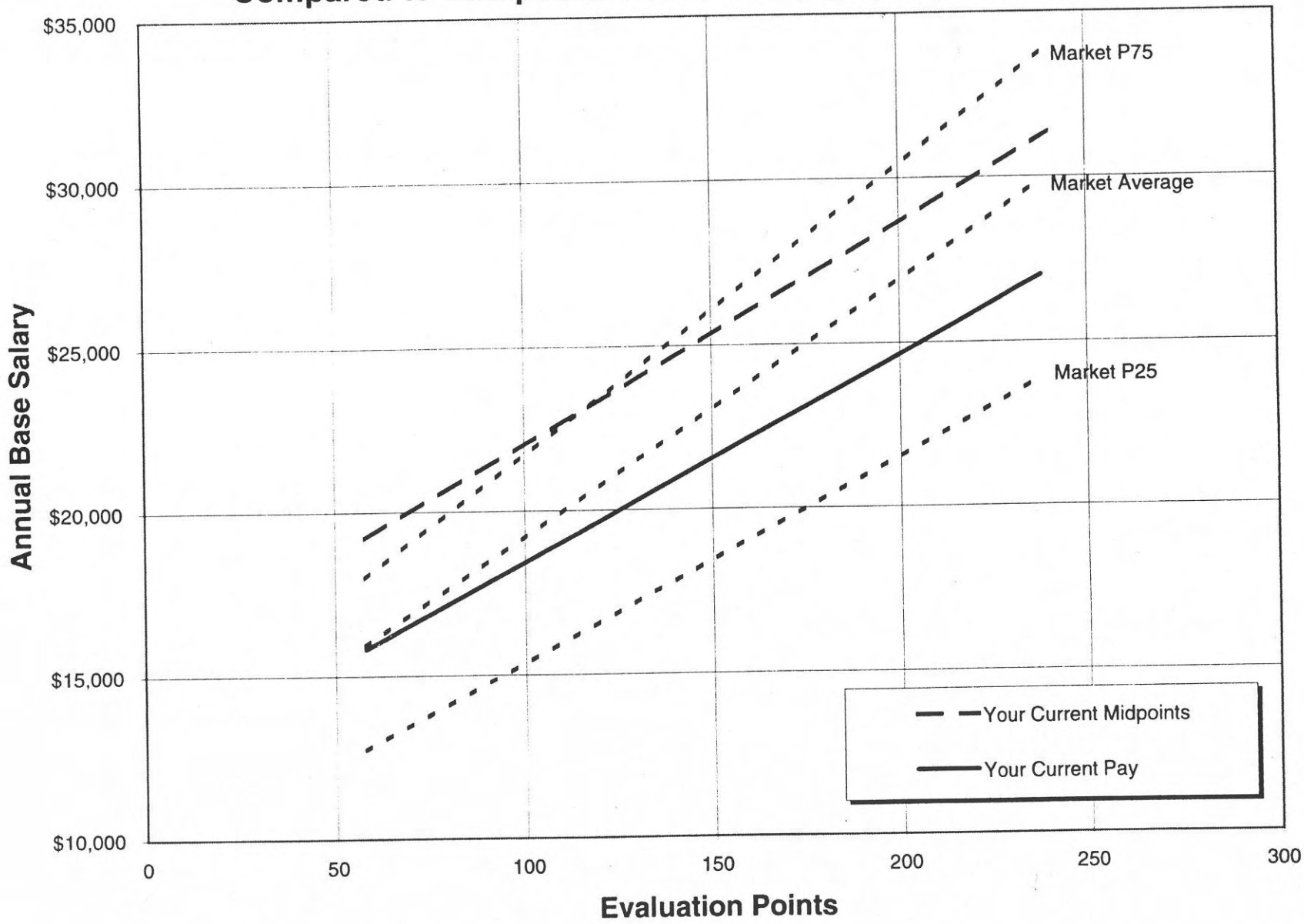
IV. Compensation Analysis for Benchmark Classes (cont'd)

Base Salary Market Comparisons - Support/Technical

- The chart on the *following* page shows the Commonwealth's base salary practice and salary range midpoints for support/technical benchmark positions compared to base salaries of the support/technical target market.
- Overall, average salaries for support/technical benchmarks are at market averages at lower point levels, with market competitiveness decreasing as role complexity (total points) increases. At the lowest point level, salaries for benchmarks are at the market average, while at the highest point level, benchmark salaries fall approximately 9.6% below market.
- Commonwealth midpoints for support/technical positions are above market averages at all point levels. Regressed midpoints for entry level support/technical positions lie above the estimated 75th percentile while midpoints for the highest support/technical level are about 4.3% above the market average.

State of Kentucky

Current Pay and Midpoints of Support/Technical Benchmarks Compared to Composite Market Average (Projected to 1/1/97)



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V. Recommendations

A. Pay Philosophy

- Most organizations have a set of fundamental concepts relating to human resources which ultimately guide specific reward decision making. This **philosophy** supports a set of **beliefs** which are widely held views of basic characteristics of organization, business and culture which deserve support from the reward system. The Commonwealth incorporates several of these beliefs in its current pay system. For example; the pay system should (in current Kentucky practice):

  - Help retain employees over the length of their careers. (e.g. value longevity).
  - Ensure pay equity for "comparable work on jobs which have comparable requirements related to skill, effort and responsibility." (KRS 337.423)
  - Provide non-discriminatory compensation, blind as to race, color, religion, national origin, sex, age (forty or older), disability, etc. (KRS 344.040)

- Hay urges two modifications to seemingly widely held beliefs:

Value longevity, but value it less and customer satisfaction more.

- EMPOWER Kentucky's thrust towards savings, efficiency, process simplification and improved customer service is supported at best indirectly by strong recognition of longevity in pay delivery.

V. Recommendations (cont'd)

A. Pay Philosophy (cont'd)

Blend concepts of external market equity with the internal equity inherent in equal pay opportunity for jobs of comparable skill, effort and responsibility

State Governments are multifaceted businesses with some jobs priced in an internal or government market (where internal equity is key) and some subject to specific external market pressures. Here non-governmental competition influences "fair" pay. For example:

Internal Equity Pricing Focus	External Market Pricing Focus
Human Rights Compliance	Systems and Data Processing
Corrections	Telecommunications
Law Enforcement	Nursing
Taxation	Physical Therapy and other Allied Health Professions

V. Recommendations (cont'd)

A. Pay Philosophy (cont'd)

- Current Market Positioning is discussed more fully previously in this report. Pay philosophies set the framework for pay program principles which generally include a statement of intended position in relevant competitive markets. This guide will help Personnel Cabinet staff in setting or adjusting pay ranges each year, subject to approval by the Governor.
  - Currently, range midpoints are above average/median levels for support and technical jobs on a trend line basis. For professional jobs results are more mixed, with entry level professional midpoints 4.2% above market averages and senior professionals 8% below. While these lines need some adjustment, they reflect an overall intent to offer competitive, middle market pay opportunities.
  - Language in KRS 64.640 comes close to setting a compensation principle, but stops short. It requires the Department of Personnel to set salary ranges after "comparison with rates being paid for similar or comparable services elsewhere". No guidance is offered in statute as to how competitive this structure should be or on how "else where" should be defined.
  - EMPOWER Kentucky implies that citizens ought to expect efficiency and customer service in their public business which is comparable to what they experience in the private sector or in other, enlightened public services.

V. Recommendations (cont'd)

A. Pay Philosophy (cont'd)

- The Commonwealth should commit more explicitly to:

  "Set salary ranges which are competitive in relevant labor markets in order to attract and retain qualified and proficient employees, efficiently delivering high quality government services".

- Key concepts here are that:
  - Ranges are competitive (between 25th and 75th market percentiles). This setting promises salary opportunity to employees. It promises future pay at middle market levels for seasoned employees in a given job. Less experienced employees will typically be paid somewhat below middle market levels.
  - Labor markets used for comparison need to be relevant. Personnel Cabinet staff has done an excellent job in focusing on Kentucky employers and major government employers in neighboring states. Relevant competitors are those employers from which the Commonwealth hires staff, those it competes with for new graduates or other labor market entrants, and those employers who hire Kentucky employees.

V. Recommendations (cont'd)

B. Pay Ranges and Pay Increases

Summarized in the matrix below are pay range and pay administration changes the Commonwealth should make. Hay's recommendations cover both the core pay programs which should be ongoing and transitional measures intended for the first 3 years of the new pay program. Details and discussion appear in the sections following this summary.

Program Element	**Current Arrangement**	Core Program for the Future	Transitional Provisions for First 3 Years
Competitiveness of Midpoints	Generally forward market medians	Explicitly at the overall median/average of relevant markets	Same as core
Frequency of midpoint change to keep pace with the market	Irregular	Every two years	Same as core
Range minimum as a % of midpoint	68% of midpoint	80% of midpoint	Year 1 - 70% Year 2 - 75% Year 3 - 80%
Range maximum as a % of midpoint	131.5%	120%	120%

V. Recommendations (cont'd)

Program Element	Current Arrangement	Core Program for the Future	Transitional Provisions for First 3 Years
Annual Increment/ Salary Increase	5% Promised in statute 0-5% delivered as budgeted	No statutory promise variable percentage increases based on market movements and available funds.	Year 1 - 3.5% of 1996 base Year 2 - 4.0% of Midpoint Year 3 - 4.0% of Midpoint
Basis for increase calculation	Percent of actual salary	Percent of midpoint	Year 1 - % of salary Year 2 - % of Midpoint Year 3 - % of Midpoint
Treatment of Increments for employees already paid over range maximum.	Regular increments (% of salary) added to base salary. Range maximum has no meaning.	Lump sum figured as % of midpoint	Year 1 - Lump sum 3.5% of salary Year 2 - Lump sum 4% of Midpoint Year 3 - Lump sum 4% of midpoint
Adjustment to relieve compression **of longer** service employees in the low end of ranges	N/A	N/A	By schedule in years 1-4 of implementation
Other equity adjustments	N/A	N/A	One time pool for special situations not covered by compression schedule above. Year 1 only
Recognition of Long Service to the Commonwealth	Certificate at 10, 16, 20, 25 and 30 years	Nominal financial rewards at 16, 20, 25 and 30 years of service ($100 per year)	Same as core

V. Recommendations (cont'd)

- The *following* page contains a table that shows the 1997 recommended salary range values for each of the professional and support/technical grade levels.

RECOMMENDED SALARY GRADE ARCHITECTURE

RECOMMENDED 1997 SALARY RANGES

Professional Positions

Grade	Minimum	Midpoint	Maximum	Percent Spread	Minimum	Midpoint	Maximum	Percent Spread
A*	1051	1156	1260	20%	$64,848	$92,641	$111,169	71%
B*	881	966	1050	19%	$55,858	$79,797	$95,756	71%
C	741	811	880	19%	$48,523	$69,319	$83,182	71%
D	616	678	740	20%	$42,229	$60,328	$72,393	71%
E	526	571	615	17%	$37,166	$53,095	$63,714	71%
F	441	483	525	19%	$33,002	$47,146	$56,575	71%
G	361	401	440	22%	$29,122	$41,603	$49,923	71%
H	311	336	360	16%	$26,046	$37,209	$44,650	71%
I	266	288	310	17%	$23,775	$33,964	$40,757	71%
J	226	246	265	17%	$21,787	$31,125	$37,350	71%

Support/Technical Positions

Grade	Minimum	Midpoint	Maximum	Percent Spread	Minimum	Midpoint	Maximum	Percent Spread
J**	226	246	265	17%	$21,787	$31,125	$37,350	71%
K	194	210	225	16%	$19,697	$28,139	$33,767	71%
L	160	177	193	21%	$17,877	$25,538	$30,646	71%
M	135	147	159	18%	$16,221	$23,174	$27,808	71%
N	114	124	134	18%	$14,952	$21,361	$25,633	71%
O	96	105	113	18%	$13,904	$19,863	$23,836	71%
P	81	88	95	17%	$12,966	$18,523	$22,228	71%
Q	66	73	80	21%	$12,139	$17,341	$20,809	71%
R	55	60	65	18%	$11,421	$16,316	$19,579	71%

Recommended 1997 Policy

Professional Positions: $67.60 x (Midpoint) + $14,495

Support Positions: $78.82 x (Midpoint) + $11,587

* Actual salaries are not to exceed that of the Governor.

**Grade J is priced off of the policy line for professional positions.

V. Recommendations (cont'd)

Premium Pay Ranges

- Job classes for which the Commonwealth must compete in premium (unusually high paying) external labor markets should be set in higher, special ranges to adhere to overall pay philosophy. Classes assigned special, higher ranges should meet these criteria:
  - Two or more high quality third party surveys confirm market averages or median's 10% or more above normal Commonwealth midpoints, reconfirm at least every 3 years.
  - The Commonwealth has actual problems hiring and keeping employees in the class.
    - Normal recruiting yields 5 or fewer qualified applicants in 60 days
    - Turnover of 20% of more annually
  - Function performed is of strategic or critical importance.
  - Class is balanced in gender (80%-20% mix) or female dominated (more than 80% female).

    or

    if the class is male dominated, there is a vigorous training/recruitment effort underway to increase gender diversity.
  - Check of evaluation points by Personnel Cabinet staff confirms quality of initial grade assignment.

Based on a review of Commonwealth of Kentucky salary range data and Hay's broad analysis of external market supply/demand trends, recommended market premiums are provided on the next page. These should be confirmed by Personnel Cabinet staff analysis before implementation. Also see information displayed in Appendix E and F (separate volume), which compares recommended 1997 pay ranges to current pay ranges.

V. Recommendations (cont'd)

Recommended Market Premiums

Code	Title	Prm%
1270	TELEPHONE INSTALLATION/MAINTENANCE TECHNICIAN I	10%
1271	TELEPHONE INSTALLATION/MAINTENANCE TECHNICIAN II	10%
1272	TELEPHONE SYSTEM SPECIALIST	10%
1733	AVIATION MECHANIC/INSPECTOR	15%
1735	AVIATION MECHANIC/INSPECTOR CHIEF	15%
4144	AUDIOLOGIST II	15%
4149	SPEECH PATHOLOGIST II	15%
7330	DATA BASE ANALYST	15%
7331	DATA BASE ANALYST SENIOR	15%
7333	SYSTEMS PROGRAMMER SENIOR	15%
7334	SYSTEMS CONSULTANT	15%
7335	SYSTEMS CONSULTANT SENIOR	15%
7336	SYSTEMS ENGINEER	15%
7337	SYSTEMS ENGINEER SENIOR	15%
7389	NETWORK ENGINEER	15%
7390	NETWORK ENGINEER SENIOR	15%
9136	MEDICAL SERVICES REIMBURSEMENT SPECIALIST	15%
9137	MEDICAL SERVICES REIMBURSEMENT SPECIALIST SENIOR	15%
9138	MEDICAL SERVICES REIMBURSEMENT SPECIALIST PRINCIPA	15%
9139	MEDICAL SERVICES REIMBURSEMENT SUPERVISOR	15%

V. Recommendations (cont'd)

C. Pay Administration

a. Range Widths

- Current Kentucky salary ranges are unusually wide with range maximums at 192% of minimums. More standard ranges would be 150% for professionals and 135-150% for support and other non-exempt jobs. Shop floor and production hourly jobs often shorten pay ranges still further.
- Elongated ranges create problems for the Commonwealth:

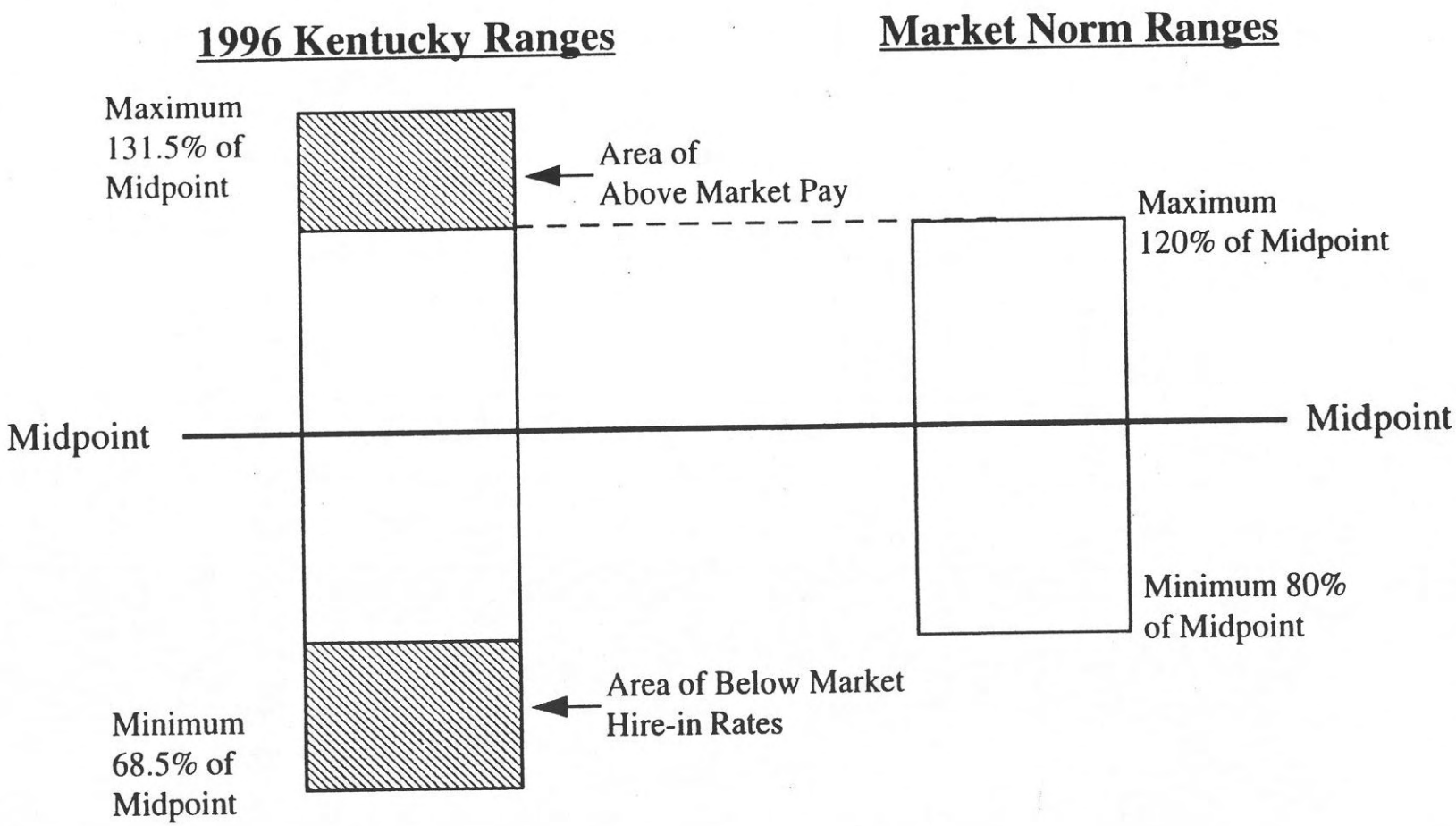
1. Range minimums are too low to provide competitive hire-in rates in the market. To address this problem, the higher "Special Entrance Rate" has been created for some classes. It is a sensible approach, but still a program patch. Another response to woefully uncompetitive minimums has been to create artificial classifications so that the talent the Commonwealth was forced to build (which it was not able to buy) could be "promoted" to a more competitive wage level. Both these responses chew up administrative time while raising questions about pay equity.

2. Pay range maximums currently do not appear to limit salary increases. Even if they did, they offer nearly twice as much room to reward longevity (or superior performance) as most other organizations find useful.

   This problem is less severe than low minimums. However, it does direct scarce salary dollars to rewarding length of service, more regularly than its quality. This problem is one of allocation priorities misaligned with more urgent recruiting and retention needs. Super elevated maximums reachable through longevity also reduce incentives to learn and to take on increased responsibilities.

The Problem of a Long Salary Range

The Commonwealth's salary ranges are far longer - or wider - than those commonly found in private and government employers elsewhere. Differences are shown in the graphic below:



V. Recommendations (cont'd)

Set 71% ranges, with minimums at 70% of a target job value (midpoint) and maximums at 120% of the same value. Over time, target 50% ranges for all classes. It is recommended that range maximum be kept at 120% of midpoint over time. Range minimum, as a percentage of midpoints, are recommended to transition from 70% to 75% to 80% over a three year period.

This shorter range applies to all professional and support jobs equally in the spirit of pay equity set forth in House Bill 268. Pay opportunity, as defined by the salary range, depends on job content valued using factors defined in this Legislation. Salary ranges from all classes move together to keep pace with the market(s) as defined by the Commonwealth's compensation philosophy. This, too, keeps pay internally equitable.

Adjust all salary ranges every two years to maintain a competitive market stance consistent with the Commonwealth's philosophy and resources. Office of Policy and Management should consult with the Personnel Cabinet on market adjustments and salary increase plans.

Biennial adjustments allow all parts of the salary range to be kept reasonably competitive. They will remove or limit the need for "Special Entrance Rates" and other adaptations to the market.

b. Annual Increments

- The Commonwealth has a generous annual increment policy set in statute (KRS 18A.355). This policy is generous at 5% (most organizations budget 2.5 - 4.0% for annual salary increases). It is made even more generous because of the ruling (OAG82-355) that employees are entitled to annual increments (not paid as lump sums, but added to base salary) even though their salary may be above the grade range maximum. (But not above maximums set by statute).

V. Recommendations (cont'd)

Discontinue statement of an increment percentage in statute.

The Commonwealth has not always been able to fund the 5% increment. Inability to do so should not be seen as a failure, since other employers have not provided increases of 5% throughout the 1990's either. Any statutory definition of the increment as a specific percentage risks creating false impressions of "shortfall" or "excessive increases" as the Commonwealth maintains its market competitiveness.

Recommendation:

Reduce the annual increment to 3.5% or less in the first year. Limit employees over maximum to a lump sum 3.5% payment (outside of base salary).

Hay encourages the Commonwealth to reconsider the usefulness of a statutory definition of the annual increment. Markets change. A 5% increment that looked reasonable in the late 1980's looks a touch high today. Now 3.5 % is more realistic.

V. Recommendations (cont'd)

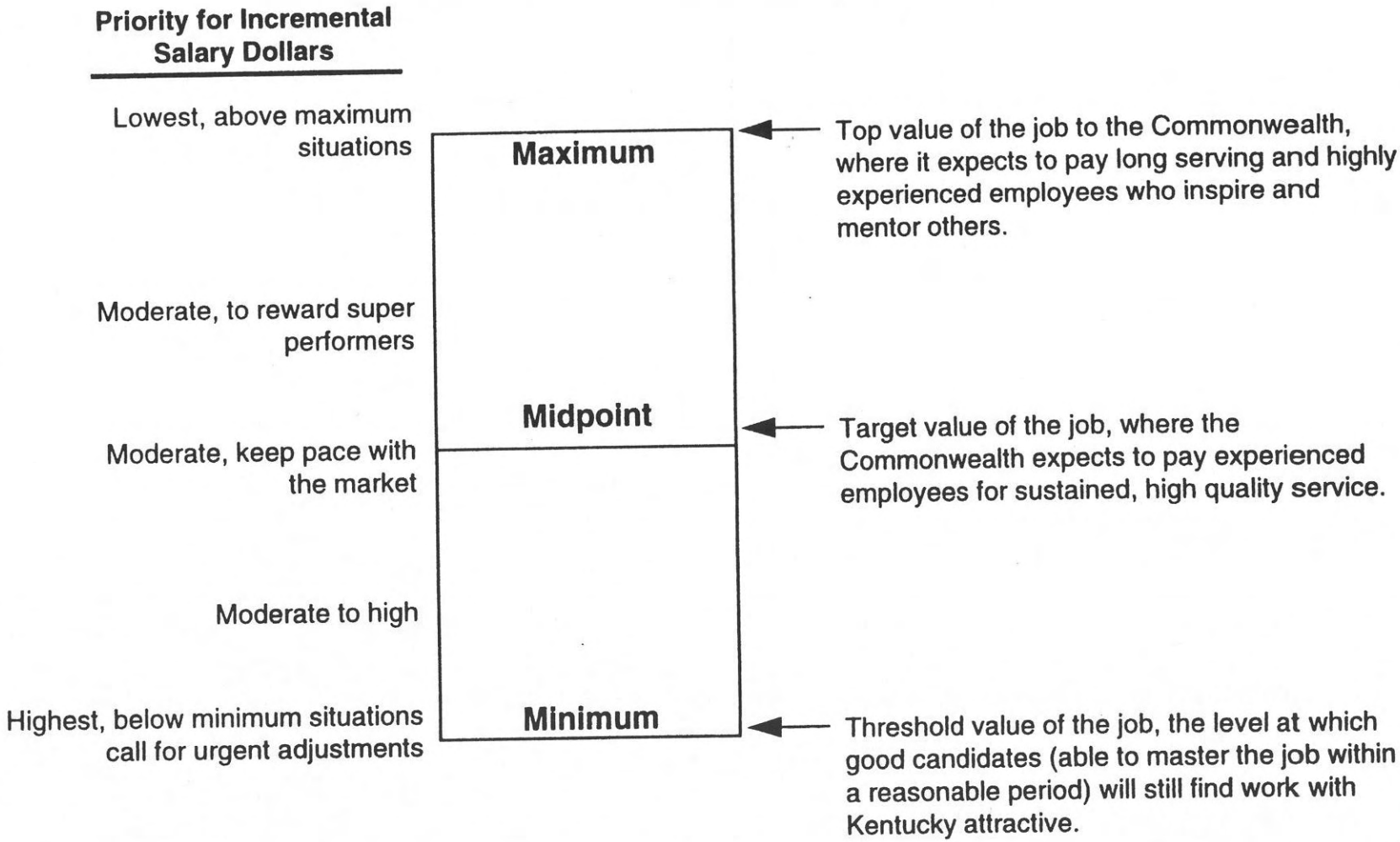
Deal with salary increases as an issue of budget allocation and labor market movement, with the details of percentages and delivery to be worked out by the Executive Branch.

EMPOWER Kentucky will affect different parts of Commonwealth operations differently. One pay delivery process will not serve the entire State equally effectively. While dollars devoted to salary increases within normal ranges ought to be equitably allocated, classifications and compensation staff will need to use different pay delivery tools. These include market adjustments to satisfactory performers; individual pay for performance, group or team pay for performance; and individual or team incentive lump sums.

Salary range architecture deserves consideration in future thinking about the annual increment. The Commonwealth's scarce salary resources can be better allocated if the universal entitlement aspects of the annual increment are phased out: The following graphic illustrates the different priorities for incremental salary dollars.

V. Recommendations (cont'd)

Anatomy of a New Kentucky Salary Range



V. Recommendations (cont'd)

To shift salary increase dollars toward employees paid farthest **below** the Commonwealth's targeted value for its jobs, Hay recommends:

Calculate annual salary increases as a percentage of range midpoint.

This move will have the practical effect of giving slightly larger (in % of actual salary terms) increases to lower paid employees.

V. Recommendations (cont'd)

C. Below Minimum Adjustments and Compression Adjustments

- Hay recommends that the Commonwealth utilize two additional forms of pay delivery to help deal with program implementation issues -- namely, below minimum adjustments and compression adjustments.
- Below minimum adjustments are designed to bring any employee's salary which is below minimum of the recommended range minimum to that level. This will then ensure a base salary which would be at least the amount that a newly hired employee would earn.
- In addition, compression adjustments are recommended to be used to help alleviate internal equity issues for employees earning salaries relatively low in range given long tenure within a position. In particular, a pay delivery matrix is recommended which delivers a compression adjustment if an employee's salary falls below a threshold level under the new salary ranges. This matrix is given to the right:
- Except for employees whose salaries are significantly below minimum, we also recommend that no employee receive more than a 15% cumulative increase. Therefore, it may be necessary to deliver compression adjustments in an additional year in order for employees to fully reach target comp-ratios.

Years in class	Threshold Compa-Ratio
0	70%
1	75%
3	80%
5	85%
6	90%

Service Recognition Rewards

- To reward those individuals with significant years of service, we recommend that the Commonwealth also consider a lump-sum check in conjunction with an employee celebrating a milestone anniversary date at 16, 20, 25, and 30 years of service. The lump-sum amount would be equal to $100 per each year of service. The award coincides with an established recognition program that the State already uses.

V. Recommendations (cont'd)

D. Situation Adjustment Pool

After scheduled compensation increases are made, there may still be some local pay equity situations which need to be addressed. These may have arisen over time for reasons other than performance differences recognized in service recognition salary awards.

For example, grade changes for one employee may have been managed as "promotions" with larger promotional increases. Another in the same work unit may occupy the same classification with comparable performance and length of service, but at a lower pay level. This lower level might have arisen because past grade changes were managed as "reclassification" with lower pay increases.

These situations are most destructive of morale at a local agency or work unit level. Thus, Hay recommends:

State Agencies without extra Agency funds be allocated as a group for one year only, a situation adjustment pool of salary dollars to address pay equity problems not otherwise covered. Increase in proposals should be reviewed and approved by the Personnel Cabinet.

V. Recommendations (cont'd)

Hay suggests that this pool be 2/10 of a percentage (.2%) of payroll.

Of course, agencies should first seek authorization to make situational adjustments from existing fund balances. Nomination of special equity cases should originate at the Agency level. These problems are generally local. Only when these internal resources prove insufficient should pool funds be requested. The Personnel Cabinet should approve these exceptional increases regardless of the funding source.

We further suggest that the following principles and guidelines be recognized in distributing pool dollars:

1. Agencies will not be able to address all deserving situations completely due to funding limits.
2. Priority for addressing special equity situations - at least partially - should be higher when:
    - Disadvantaged employees are protected group members only.
    - When inequities are between employees in the same immediate work unit.
    - When disparities are particularly large.

V. Recommendations (cont'd)

E. Implementation Plan

- Base salary administration
  - Base salary increases are granted every year as defined by the General Assembly. For the first year, the "Annual Increment" is 3.5% of base salary. In subsequent years, the base salary increase will be a percentage of midpoint of the salary range for the job class. This approach will have the effect of advancing the salaries of relatively lower paid employees in the class relatively faster than the higher paid employees in the class.
  - In no plan year will any employee's individual increase exceed 15% of base salary.
- Lump sum increase administration
  - A lump sum increase (separate check) will be granted to employees whose salary exceeds range maximum. For the first year, the lump sum increase is 3.5% of base salary. In subsequent years, the lump sum increase is a percentage of midpoint of the salary range for the job class. It is recommended that this lump sum increase does not exceed the base salary increase in any plan year.
  - The service recognition award program is an ongoing program designed to recognize long tenure within the Commonwealth. The award payout schedule is given earlier in this section.
- Situational adjustment pool
  - The situational adjustment pool is a one time only program that is phased out after the first year of implementation

V. Recommendations (cont'd)

E. Implementation Plan (cont'd)

The table below summarizes the implementation of the new compensation program over a four year period.

	1998 Year 1	1999 Year 2	2000 Year 3	2001 Year 4
Adjust Midpoints:	Yes	No	Yes	No
Minimum as % of Midpoint:	70%	75%	80%	80%
Below Minimum Adjustments:	Yes	Yes	Yes	Yes
Compression Adjustments (1):	Sched1	Sched2	Sched3	Sched3
Base Salary Increase:	% Base	% Midpt	% Midpt	% Midpt
Over Maximum Lump Sum:	% Base	% Midpt	% Midpt	% Midpt
Service Recognition Award:	Yes	Yes	Yes	Yes
Situation Adjustment Pool:	Yes	No	No	No
Maximum Allowable Increases:	15%	15%	15%	15%

Notes:

(1) Compression Adjustment Schedules:

- Sched1: 0 yrs (70%); 1 yr (75%); 3 yrs (80%); 5 yrs (85%); 6 yrs (90%)
- Sched2: 0 yrs (75%); 1 yr (77%); 3 yrs (82%); 5 yrs (87%); 6 yrs (92%)
- Sched3: 0 yrs (80%); 1 yr (80%); 3 yrs (85%); 5 yrs (90%); 6 yrs (95%)

V. Recommendations (cont'd)

F. Communication

- The success of any compensation program in achieving its intended purpose depends on the way in which it is applied and communicated at the individual level. If employees are convinced a program is fair, it is.
- The success of any communication plan depends on the degree and completeness of the communication planning and preparation process.
- We suggest the Classification and Compensation staff complete the following communication planning and preparation steps to adequately prepare them for the communication process.

  1. Develop a list of possible questions and answers that will prepare for the "Who gets hurt" mentality but stress positive aspects of the program.
  2. Develop a strategy concerning how much and what type of information will be shared with the various key audiences. These are:
     - General public
     - Agency personnel administrators
     - All employees
     - Senior management
     - Governor
     - Legislators

V. Recommendations (cont'd)

3. Develop a timetable that outlines the sequence of needed communication events.* An example timetable is shown below:

Date of Communication Event:	Information/ message to be Communicated:	Audience Communicating to:	Communication Materials Needed

* We recommend that all communication begin at the Agency level.

- It is important to provide "positive" communication by portraying to all stakeholders why this is the best compensation program for the State of Kentucky.

VI. New Program Costs

A. Costing Analysis

- To determine recommended program costs, we implemented increases using the following criteria:

Case 1: Employees with salaries below range minimum.

1. Salaries are adjusted up to recommended minimums
2. Compression adjustments, based on class longevity and target compa-ratio, are given per the compression matrix (cumulative increases not to exceed 15%):
3. An annual increment of 3.5% to current base salary is provided (cumulative increases not to exceed 15%):

Case 2: Employees with salaries within range and eligible for compression adjustments.

1. Compression adjustments are given as shown in the compression matrix (cumulative increases not to exceed 15%):
2. An annual increment of 3.5% to current base salary is given (cumulative increases not to exceed 15%):

VI. New Program Costs (cont'd)

A. Costing Analysis (cont'd)

Case 3: Employees with salaries within range and not eligible for compression adjustment:

1. An annual increment of 3.5% to current salary is given (not to exceed range maximum)
2. For those employees holding salaries fairly close to range maximum, an annual increment is granted to bring salary up to the recommended range maximum and the remaining 3.5% is provided in a lump sum check.

Case 4: Employees with salaries above range maximum.

- For those employees holding salaries above the recommended range maximums, their base salary is held at current 1996 levels and a lump sum check of 3.5% is provided.

➢ In all cases:

- Increases to base salary are capped at the recommended range maximums.
- All increases are derived from current (8/96) salaries.
- Employees may receive a Service Recognition Award for 16, 20, 25 or 30 years of service during the plan year.

VI. New Program Costs (cont'd)

B. Plan Design Summary

- The following is a summary of design features for two alternatives for program implementation:

	6.3% Option	5.2% Option
• Below Minimum Adjustments:	Full Amount to Min	Full Amount to Min
• Compression Adjustments:	Per Schedule	Per Schedule
• Annual Increment:	3.5%	3.5%
• Lump Sum for Salary Over Maximum:	3.5%	2.0%
• Service Recognition Award:	Yes	No
• Cap on Increase to Base Salary:	15%	15%
• Situation Adjustment Pool	0.2%	0.2%

Notes

- Compression adjustment schedule with years in class and target compa-ratio:
  - 6.3% Option: 0 yr.s - 70%, 1 yr - 75%, 3 yr.s - 80%, 5 yrs.-85%, 6 yr.s - 90%
  - 5.2% Option: 0 yr.s - 70%, 2 yr.s - 75%, 5 yr.s - 80%, 8 yrs.-85%, 13 yr.s - 90%
- Service Recognition Award: $100/yr for each year of service at the following milestones (16, 20, 25, 30 yr.s)
- Below minimum adjustments are given regardless of the maximum allowable increase.
- Situational adjustment pool administered at Agency level. Pool not to exceed .2% of payroll.

VI. New Program Costs (cont'd)

C. Costing Assumptions

- All cost figures are a function of data available at the time of analysis (8/96). More precise costing estimates, in terms of actual dollar expenditures, should be determined prior to an (assumed) implementation date of 1/98. Relative costs (as a percentage of current payroll) at time of implementation should be relatively consistent with this analysis.
- Cost estimates are based, in part, on the following:
  - Current salaries (as of August 1996) of $821.2MM for 30,809 employees covered under the study
    - Excludes seasonal, temporary, scholarship employees and co-op students
    - Excludes employees in pilot projects and classes where no KJAQ was received
  - All increases are applied to current salary.
  - Assumed slippage equal to .5% of payroll. Slippage includes budgeted dollars not spent due to employee terminations and hiring replacement employees at lower rates than terminated employees.

See Appendix G for costing summary tables for both options.

VI. New Program Costs (cont'd)

D. Costing Results

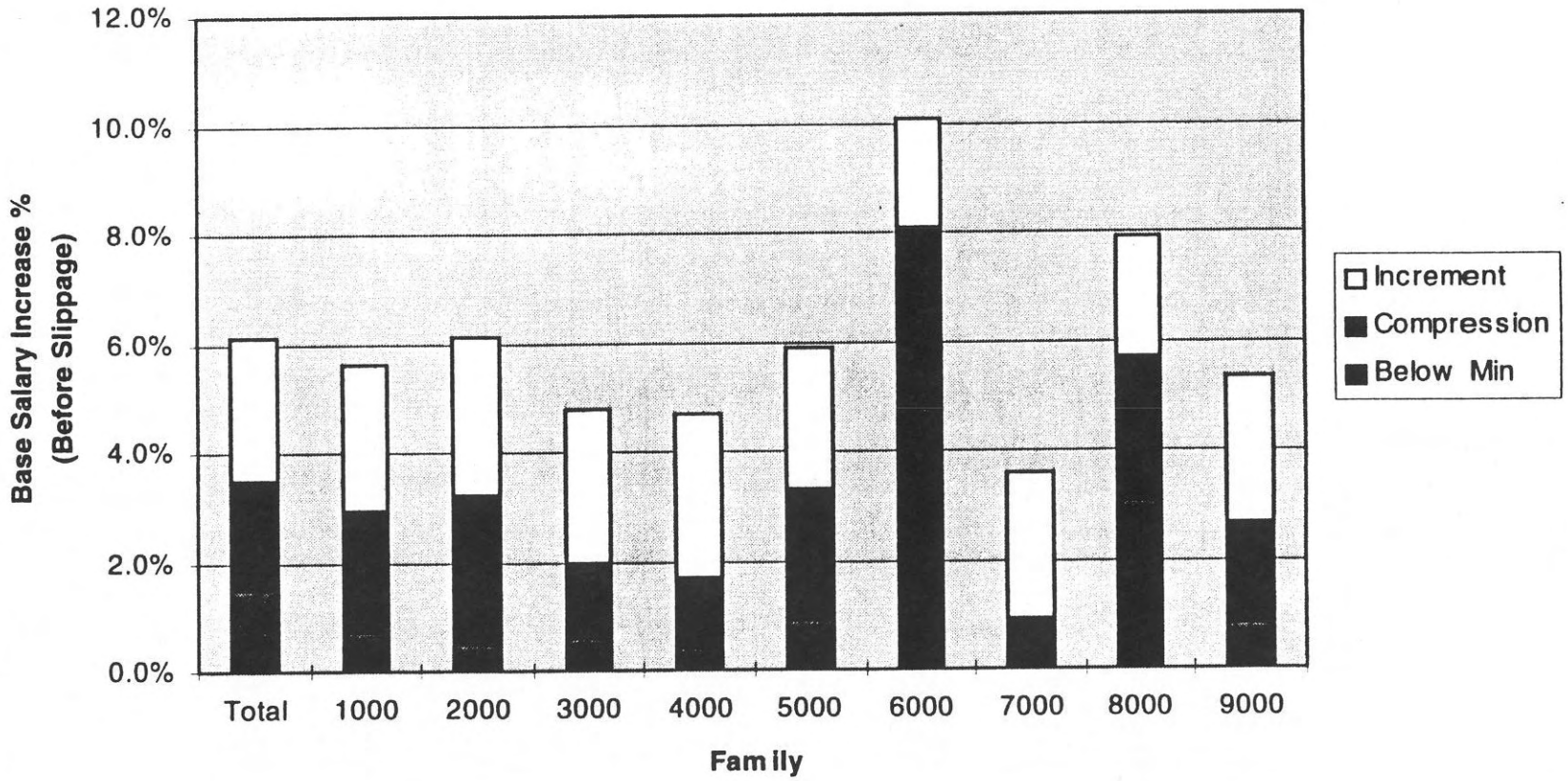
- The following is a summary of annualized cost estimates (and % of $821.2MM payroll) of program recommendations for the first year of implementation:

	6.3% Option	5.2% Option
Base Salary Increases		
• Below Minimum Adjustments:	$12.2MM (1.5%)	$12.2MM (1.5%)
• Compression Adjustments:	$16.6MM (2.0%)	$ 8.2MM (1.0%)
• Annual Increment Adjustments:	$21.2MM (2.6%)	$23.0MM (2.8%)
Lump Sum Increases		
• Over Maximum Increases:	$ 3.4MM (0.4%)	$ 1.9MM (0.2%)
• Service Recognition Award	$ 0.4MM (0.1%)	$ 0MM (0.0%)
• Situation Adjustment Pool	$ 1.6MM (0.2%)	$ 1.6MM (0.2%)
Total Costs		
• Total Base Salary Increases:	$50.0MM (6.1%)	$43.3MM (5.3%)
• Including Lump Sums:	$55.5MM (6.8%)	$46.9MM (5.7%)
• After Assumed Slippage:	$51.4MM (6.3%)	$42.8MM (5.2%)

- Costing estimates (given the assumptions above) exceed 1997 budgeted expenditures by $10.3MM (1.3% of payroll) for the 6.3% cost option and $1.7MM (0.2% of payroll) for the 5.2% cost option.

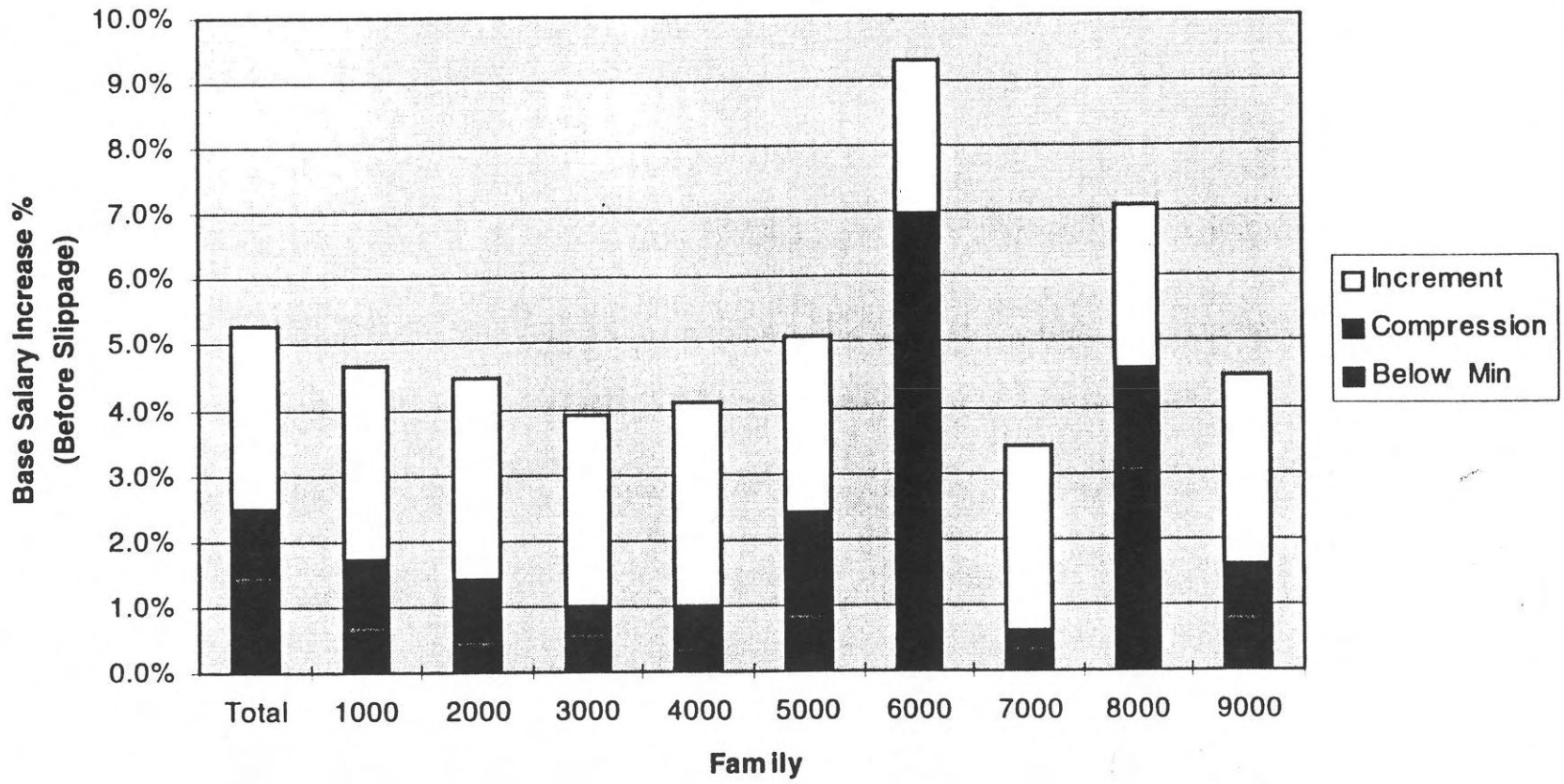
VI. New Program Costs (cont'd)

D. Costing Results for First Year of Implementation - 6.3% Option



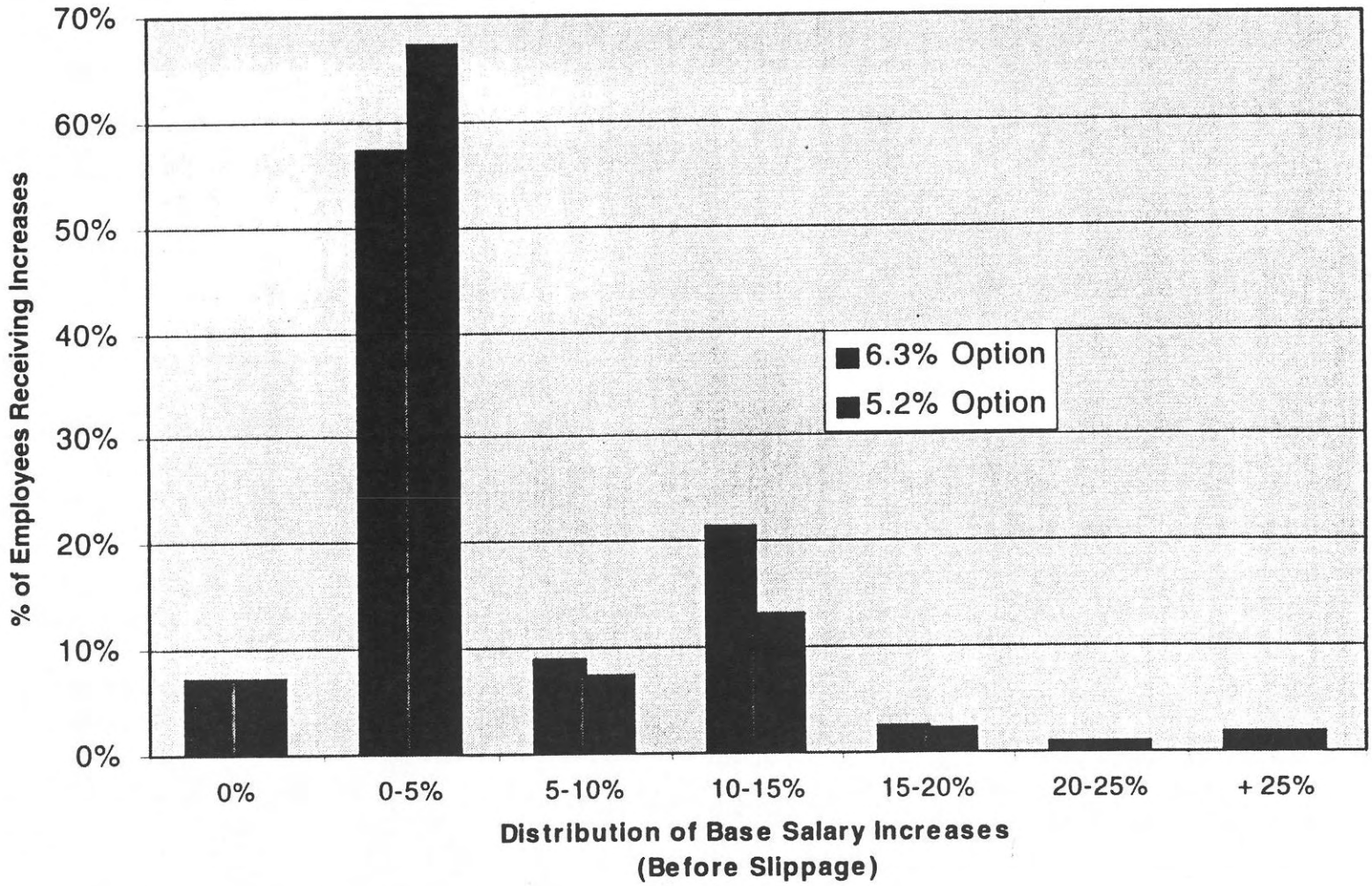
VI. New Program Costs (cont'd)

D. Costing Results for First Year of Implementation - 5.2% Option



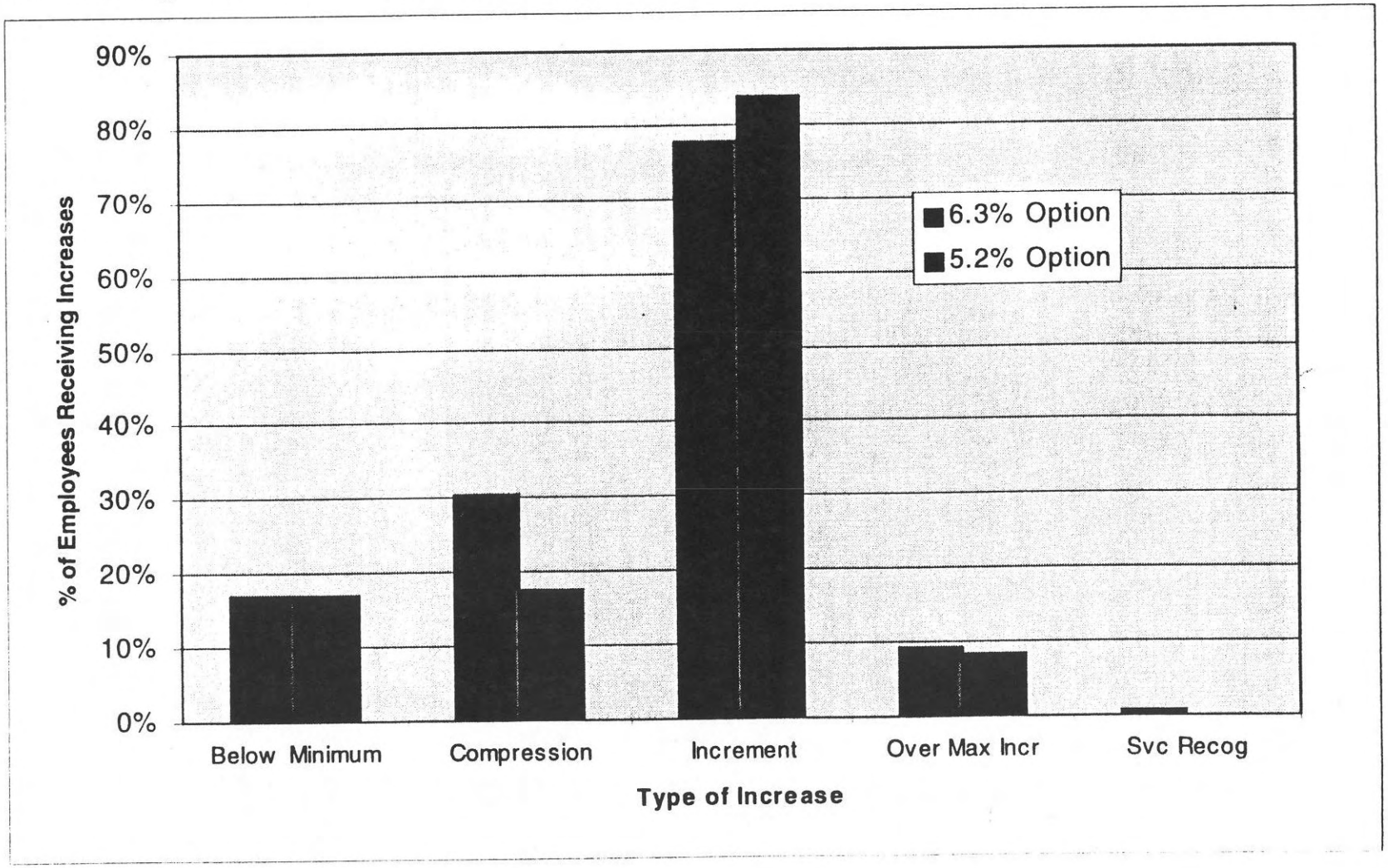
VI. New Program Costs (cont'd)

D. Costing Results for First Year of Implementation - Distribution of Base Salary Increases



VI. New Program Costs (cont'd)

D. Costing Results for First Year of Implementation - Distribution of Type of Increases



VI. New Program Costs (cont'd)

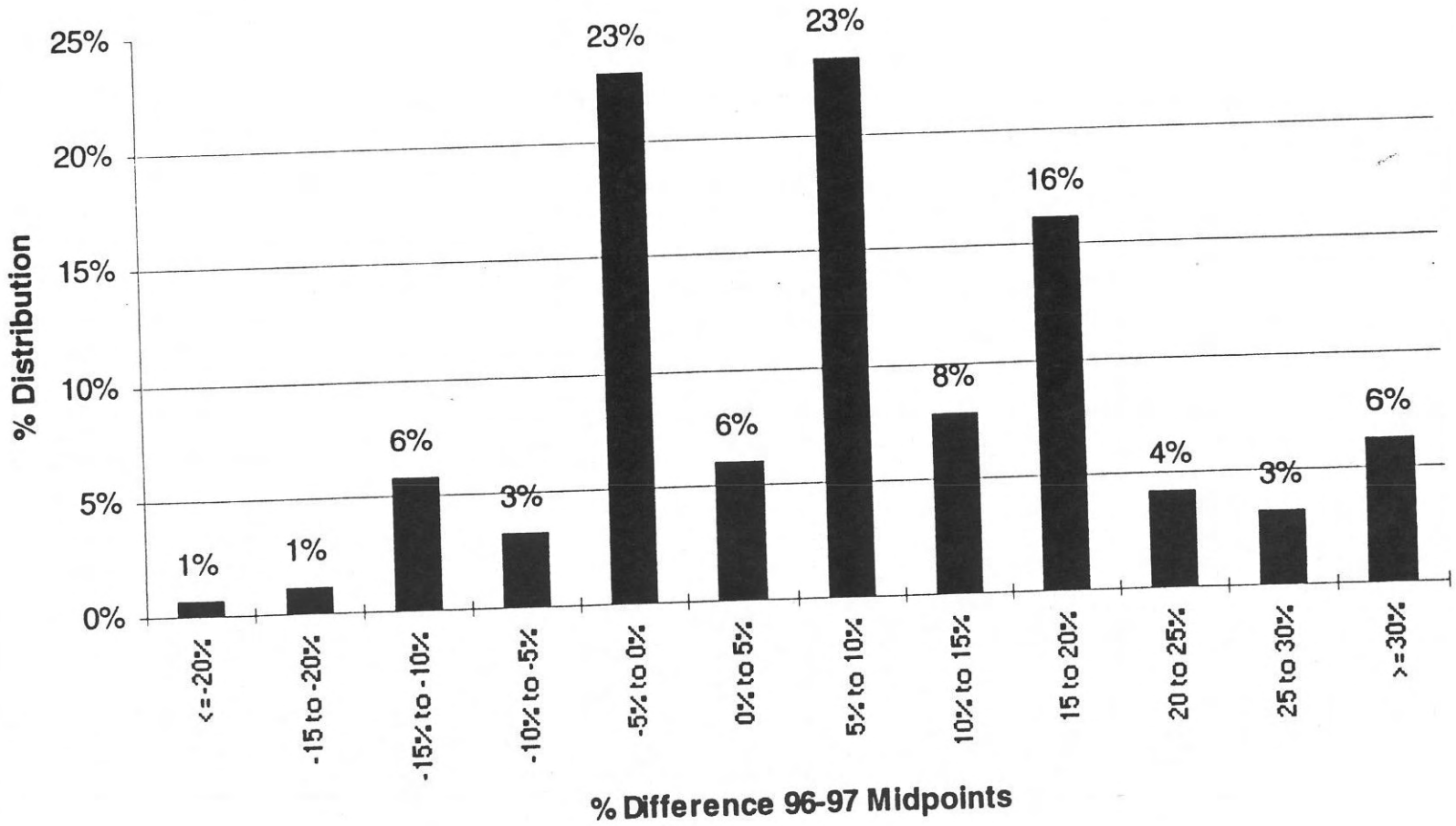
E. Range Displacement Analysis

- Distribution of employees in salary range under both options is given below:
  - Below minimum: 5,254 (17%)
  - Within range: 23,382 (76%)
  - Above maximum: 2,170 (7%)
- Recommended 1997 salary ranges compared to current 1996 ranges in aggregate, is given below:
  - % increase in minimums: 7.9%
  - % increase in midpoints: 8.0%
  - % increase in minimums: -1.4%

➢ *See Appendix G for summary tables.*

VI. New Program Costs (cont'd)

E. Range Displacement Analysis (cont'd)



See new info 2/21/97

VI. New Program Costs (cont'd)

F. Long Term Cost Analysis - 6.3% Option (cont.d)

The following is a summary of annualized cost estimates in $MM (and % of payroll) of program recommendations for a 4 year implementation of the 6.3% Option using the implementation plan given in Section V:

Assumptions	**Year 1**	**Year 2**	**Year 3**	**Year 4**
Midpoint Movement:	8.0%(1)	0.0%	7.0%	0.0%
Minimum as % of Midpoint:	70%	75%	80%	80%
Below Minimum Adjustments:	Yes	Yes	Yes	Yes
Compression Adjustments (2):	Sched1	Sched2	Sched3	Sched3
Base Salary Increase (3):	3.5%	4.0%	4.0%	4.0%
Over Maximum Lump Sum (3):	3.5%	4.0%	4.0%	4.0%
Service Recognition Award:	Yes	Yes	Yes	Yes
Situation Adjustment Pool:	0.2%	No	No	No
Maximum Allowable Increases:	15%	15%	15%	15%

Notes:

(1) 8% from current job evaluation and salary structure

(2) Compression Adjustment Schedules:

- Sched1: 0 yrs (70%); 1 yr (75%); 3 yrs (80%); 5 yrs (85%); 6 yrs (90%)
- Sched2: 0 yrs (75%); 1 yr (77%); 3 yrs (82%); 5 yrs (87%); 6 yrs (92%)
- Sched3: 0 yrs (80%); 1 yr (80%); 3 yrs (85%); 5 yrs (90%); 6 yrs (95%)

(3) Base salary increases and over maximum lump sum increases are given as a % of base salary for year 1 and a % of midpoint for years 2+

VI. New Program Costs (cont'd)

F. Long Term Cost Analysis

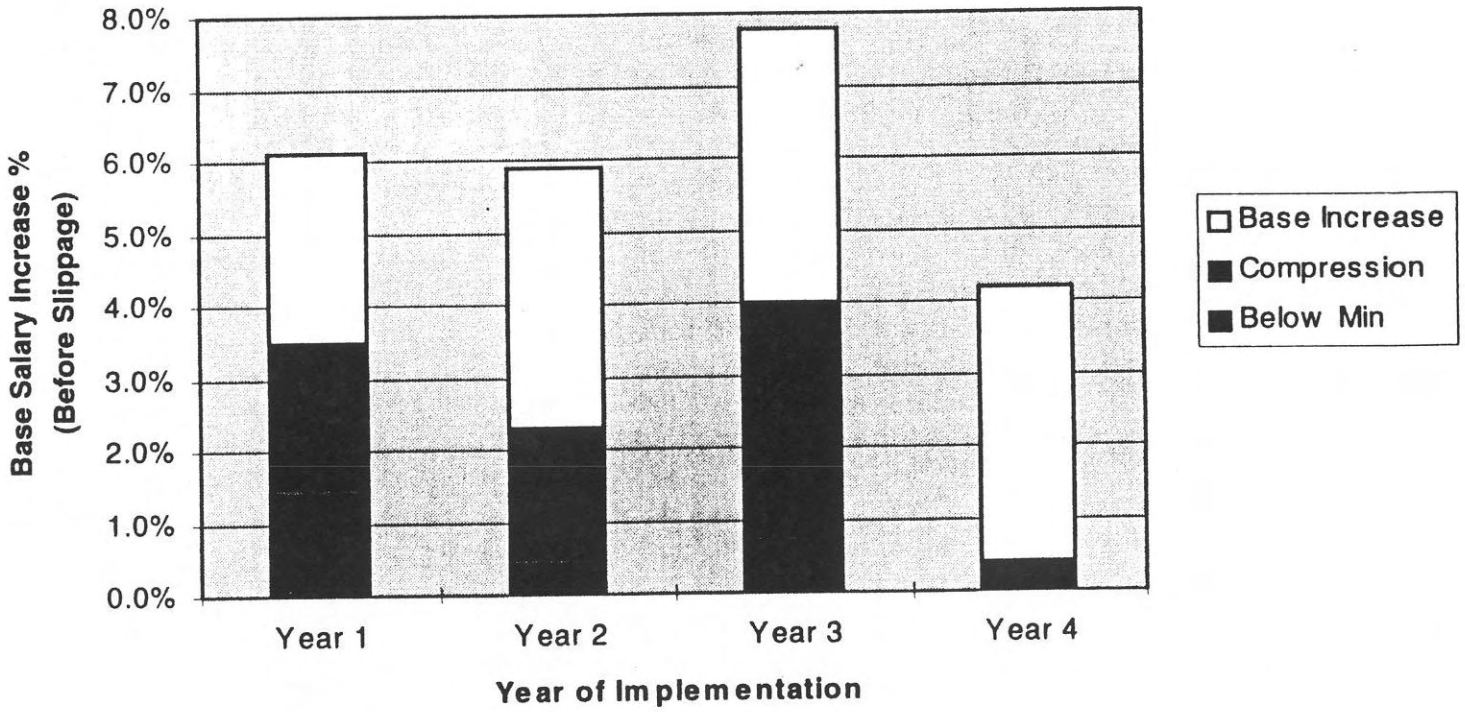
The following is a summary of annualized cost estimates in $MM (and % of payroll) of program recommendations for a 4 year implementation of the 6.3% Option using the implementation plan given in Section V:

	Year 1	Year 2	Year 3	Year 4
Base Salary Increases				
Below Minimum Adjustments:	$12.2 (1.5%)	$ 4.6 (0.5%)	$ 7.8 (0.8%)	$ 0.0 (0.0%)
Compression Adjustments:	$16.6 (2.0%)	$15.8 (1.8%)	$29.7 (3.2%)	$ 3.7 (0.4%)
Annual Increment Adjustments:	$21.2 (2.6%)	$31.1 (3.6%)	$35.2 (3.8%)	$37.5 (3.8%)
Lump Sum Increases				
Over Maximum Increases:	$ 3.4 (0.4%)	$ 3.9 (0.4%)	$ 1.9 (0.2%)	$ 2.7 (0.3%)
Service Recognition Award	$ 0.4 (0.1%)	$ 0.4 (0.1%)	$ 0.4 (0.0%)	$ 0.4 (0.0%)
Situation Adjustment Pool	$ 1.6 (0.2%)	$ 0.0 (0.0%)	$ 0.0 (0.0%)	$ 0.0 (0.0%)
Total Costs				
Total Base Salary Increases:	$50.0 (6.1%)	$51.5 (5.9%)	$72.7 (7.9%)	$41.2 (4.1%)
Including Lump Sums:	$55.5 (6.8%)	$55.8 (6.4%)	$75.0 (8.1%)	$44.3 (4.5%)
After Assumed Slippage:	$51.4 (6.3%)	$51.5 (5.9%)	$70.4 (7.6%)	$39.4 (4.0%)
Market Position				
Compa Ratio Before Increases:	87.3%	92.6%	91.7%	98.9%
Compa Ratio After Increases:	92.6%	98.1%	98.9%	103.0%

➢Note: Upward spike in compression adjustments in year 3 largely attributable to a 7% movement in midpoints and adjustment of minimums at 80% of midpoints.

VI. New Program Costs (cont'd)

F. Long Term Cost Analysis - 6.3% Option (cont.d)



VII. Gender Equity

- Pay ranges recommended in this report are based on the job content elements set forth in House Bill 268. These are applied to all jobs, regardless of whether their incumbents are mostly male, mostly female or a balance of genders.

Ranges recommended in this report accord equal earnings opportunity for all jobs based on job content only. These assignments are gender neutral and conform to requirements of House Bill 268.

- Hay recommends that the Commonwealth set a few classes which compete in premium external markets into higher salary ranges. Competent employees must be hired and retained. However, these premium ranges should not become a device for maintaining higher salaries for male dominated classes. Premium ranges should be established for sound business reasons only, with steps to increase the diversity of their incumbents if they are dominated by one gender.
- Local agency equity adjustments are addressed via a special situation adjustment pool. These guidelines are provided earlier in Section V.
- Conditions which special, premium ranges should meet are discussed in Section VIB of this report.

VIII. Other Issues (cont'd)

A. Geographic Differentials

- We analyzed the appropriateness of introducing a geographic differential for Commonwealth positions.
  - We looked at the differences in pay across very large urban areas to very small rural areas.
  - Our analysis revealed that there is approximately a 5% difference in pay between large urban and small rural areas.
- This 5% differential, if recognized, would result in an adjustment downward to our recommended salary ranges for employees working in small rural areas.

Based on potential legal and administrative issues, the Commonwealth should not employ geographic differentials.

VIII. Other Issues (cont'd)

B. Changes in Law and Rule

- Hay encourages a few changes in statute and rules to create a classification and pay system which is more flexible and more supportive of EMPOWER KENTUCKY initiatives
  - Give range maximums the strength of statutory maximum salaries. Give the Personnel Cabinet the authority to set salary ranges which cannot be exceeded with annual salary adjustments.
  - Change KRS 18A.355 to eliminate a percentage specification of annual increments. Charge the Personnel Cabinet to develop pay administration guidelines which allocate salary increase dollars to enable the Commonwealth to:
    - Maintain a salary program which attracts and retains necessary talent; and
    - Appropriately reward effective public service
  - Amend KRS 64.640 to commit the Commonwealth to "set salary schedules which are competitive with those of other employers in relevant competitive labor markets."
  - Amend proposed 101 KAR 2:036 Section 1 (2) to decentralize to the appointing authority the latitude to hire at rates up to 10% above the minimum rate for a class to overcome recruiting difficulties. Require that such decisions be documented for subsequent review by the Personnel Cabinet. Do not require advance approval.

VIII. Other Issues (cont'd)

B. Changes in Law and Rule (cont'd)

- Change 18A.095 (11)(c) to eliminate appeal of reallocation decisions already rendered by the Commissioner.
  - EMPOWER Kentucky promotes efficient decision-making. Once the Commissioner and the employee have been able to determine that all the facts relevant to a reclassification or reallocation decision have been brought forward and considered, there should be no further need for appeal hearings. Appeal hearings clog decision making processes. Most jurisdictions limit appeals or grievances on classification assignment to situation where bribery or protected class discrimination is alleged.
- 101 KAR 2:036 Compensation plan and Pay Incentive Systems sets out at least 14 ways in which a state employee might receive a pay increase. Hay's views of these are summarized below. In general, the Commonwealth should limit the number of rule driven increases since they add cost, complexity and sometimes inequity to a pay program.

Increase	Nature	Hay Recommends	Discussion
Probationary Increment	**Sec 4(1) increase upon successful completion of probation period.**	**Keep 3.5%**	**Rewards successful progress in learning the job; recognizes full membership in the work unit.**
Promotional Increase	**Sec 3(1) increase by the larger of 5% or the new range minimum upon promotion. Permits 10% on 15% increases under exceptional conditions.**	**Keep**	**Most employers have a minimum promotional increase. Use of 10% or 15% increases should be made, but infrequently**

VIII. Other Issues (cont'd)

Increase	Nature	Hay Recommends	Discussion
Reclassification	Sec 3(3) increase of 5% where duties have permanently changed to those of a higher classification.	Administer as a promotion. Keep at 5% or new minimum	This is like a promotion but without the competition. Reward at 5% for simplicity.
Reallocation	Sec 3(4) increase of 5% when previous, erroneous classification has been corrected.	Administer as a promotion	Like a promotion, but without competition. Reward at 5% for simplicity. Consider merging "reclassification" and reallocation" to a single transaction called "reclassification"
Detail to Special Duty	Sec 3(5) increase of 5% or minimum of the range for temporary assumption of duties in a higher classification.	Keep	Rewards helping out by assuming higher level duties temporarily.
Pilot Program Participation	Sec 3(6)(c) holds pilot program participant salaries even though the program is canceled.	Keep	Encourages pilot program participation and risk taking.
Pay Grade Changes	Sec 3(7) provides increases 5%, 10% or flat $ increases, uniform within an agency, provided new range minimums are met.	Modify to allow flexible % increase	When a whole class is reassigned to a higher pay range, incumbents have presumably been "underpaid" previously. Increases should be kept flexible but should not exceed the percentage by which the job's midpoint has moved with the grade change.

VIII. Other Issues (cont'd)

Increase	Nature	Hay Recommends	Discussion
Redress Increases	Sec 3 (8)(a)	Abolish	Appears redundant with provisions covering reallocation, SER, and pay grade changes.
Special Entrance Rate	Sec 3 (8)(6)	Eliminate. Replace with premium market ranges.	Most newly market competitive ranges do not need special entrance rates. A few exceptions can be handled as premium range situations.
Annual Increment	18A 355 provides for annual 5% increases, unless modified by budget appropriations.	Replace with a periodic (normally annual) salary increase of varying size. Require Agencies to identify "satisfactory" performers. Limit increases to these.	Nourishes an entitlement orientation. Plus 5% is a slightly inflated number for the mid 1990's. When the General Assembly funds a 3% range progression increase, they should not be seen as "underfunding" a 5% entitlement.

VIII. Other Issues (cont'd)

Increase	Nature	Hay Recommends	Discussion
Distinguished Service Award	Sec. 11 provides a 3% midpoint lump sum for those over midpoint and 3% of midpoint addition to base for up to 25% of Agency employees. Funded by half of savings saved through staff reductions or high performance. One award per employee in 24 months.	Keep, but make all awards in lump sum form. Allow employees to earn an awards every year if they meet the criteria.	Conversion to lump sum recognizes past performance without committing to extra rewards in future base salary. Limiting awards to one every 24 mos. arbitrarily cuts off employees who perform superbly every year. This limit encourages abuse of DSA by suggesting rotation among all employees regardless of their contribution.
Educational Achievement Award	Sec 5 provides 10% of salary or $2500 for significant (260 class hours) job related education (or GED) taken at personal expense	Keep.	Not especially costly due to low use. Aligns well with the Governor's policy emphasis on the value of education to the Commonwealth.
Extraordinary Salary Adjustment	Not mentioned in 101KAR 2:036. Allows in range increase to counter employment offers to key employees.	Adopt a new rule granting the Commissioner discretion to approve out-of-policy increases within existing pay ranges	Rarely used , but necessary discretion for the Commissioner to increase salary within a range to counter an employment offer received by key employee; or to deal with an urgent equity problem. Usually used only when the employee's departure will irreparably harm a major project.

VIII. Other Issues (cont'd)

C. Classification Consolidation

- Where possible, the Commonwealth is interested in consolidating job classes. Reasons for consolidating classes include ease of administration and communication.
- Based on a review of evaluation patterns from the job evaluation committees, there appears to be some opportunity for job class consolidation among filled classes. Currently, 1257 filled classes have been evaluated. Based on similarity of nature of work performed and similarity in job evaluation, approximately 160 filled classes are candidates for consolidation.
- Additionally, the Classification and Compensation staff have identified approximately 250 of the estimated 400 unfilled classes as candidates for elimination.
- We recommend that the Commonwealth review these class consolidation opportunities with Agency management before implementation. Consolidation may be unwise if:
  - One class requires special license or certification (by law or reimbursement regulation) and the other consolidation candidate does not.
  - Federal program funding requires work be done only by employees in a specific discipline.
  - Eligibility list consolidation would submerge candidates from protected classes, hampering the Commonwealth's employment diversity efforts.

Broad Banding is not involved in the class consolidation opportunities identified by Personnel Cabinet Staff, Agency Personnel Administrators and Hay. The consolidation noted came from sharp reduction of the number of classes differentiated mainly by incumbent length of service or by title proliferation. With shorter market competitive ranges, the Commonwealth will no longer need to "promote" employees who otherwise could not be paid competitively. Thus, the need for poorly differentiated higher level job classes has evaporated.

IX. Next Steps

1. Complete the **benefits study** and review total reward (salary & benefits) levels.
2. **Plan communications** for both general information to various audiences and specific communication of classification and pay changes to individual employees.
3. Schedule **software delivery and training** of Classification and Compensation staff in late February or early March 1997 when the latest version of HRXpert™ becomes available.
4. Plan **class consolidation reviews** with Agencies.
5. Plan **reconsideration process** for later in March 1997 and afterward. This will depend on success in modifying 18A.095 (11) (c) to remove formal hearings from the job classification process in most instances.