

2018 Advisory Recommendation

State of Arizona



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Introduction

Every year, the Arizona Department of Administration (ADOA) provides an Advisory Recommendation to the Governor and the Legislature pursuant to A.R.S. § 41-751. This document provides an analysis of the State's current compensation levels compared to other public and private sector employers, and a review of turnover rates, retirement projections, and projected market movement.

This report reflects the current status of Arizona State employee compensation as it relates to market conditions at the end of Fiscal Year 2018. The report is provided as a resource to guide statewide budget considerations during the preparation of the Fiscal Year 2020 budget.

Current Environment – State Government

History of Salary Adjustments¹

The following table illustrates the salary increase history for State Personnel System employees since FY 2007. The last permanent base increase for employees was in FY 2014 which made the retention payments initiated in FY 2013 permanent for uncovered employees (see Footnote 6).

Fiscal Year	Average Salary	Salary Increase Type			Allocations for Select Classes
		General Salary Adjustment	Performance	Retention	
2007	n/a	\$1650	2.5%	-	✓ ²
2008	n/a	3.0%	0.25%	-	✓ ³
2009	\$42,251	-	-	-	x
2010	\$42,304	-	-	-	x
2011	\$42,235	-1.92% ⁴	-2.75% ⁵	-	x
2012	\$42,322	-	-	-	x
2013	\$42,447	-	-	5.0% ⁶	x
2014	\$43,832	-	-	-	x
2015	\$44,116	-	-	-	x
2016	\$45,062	-	-	-	x
2017	\$45,981	-	-	-	x
2018	\$46,548	-	-	-	x
2019	n/a	tbd	tbd	tbd	tbd

¹ Source: JLBC Appropriations Reports

² Included additional salary adjustments for the Auditor General's Office, State-employed nurses and correctional officers in the Department of Corrections and Department of Juvenile Corrections.

³ Included additional salary adjustments for the General Accounting Office, Assistant Attorney Generals, supervisory correctional officers at the Departments of Corrections, security officers at the Arizona State Hospital, officers at the Department of Juvenile Corrections, and sworn officers at the Department of Public Safety.

⁴ One-time loss resulting from 5 furlough days, except for certain exempt positions.

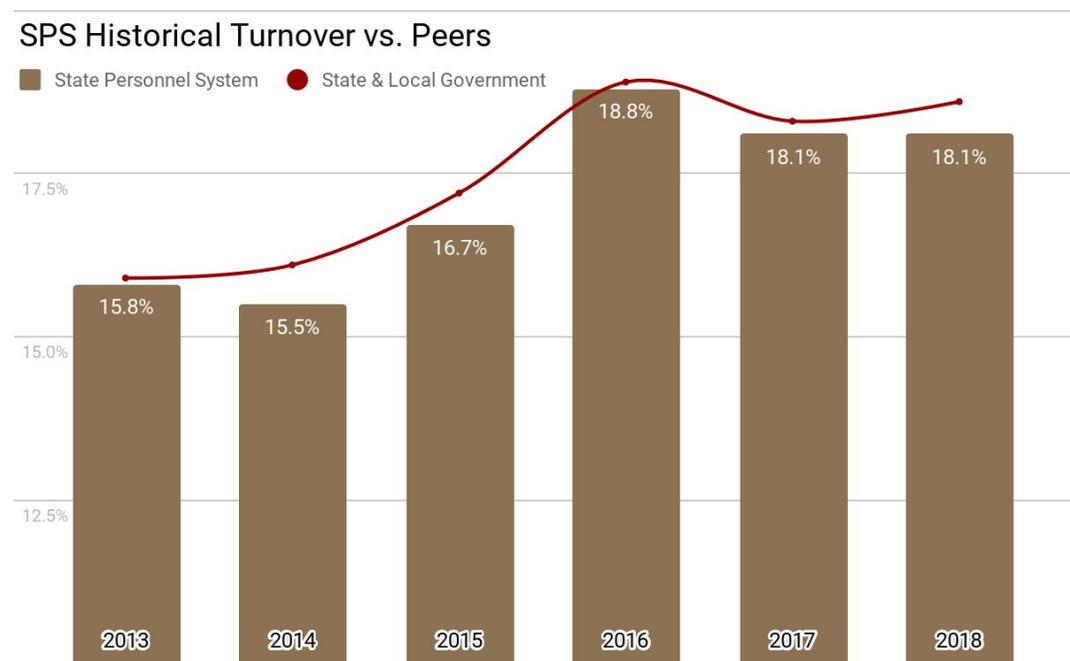
⁵ Performance pay reduction intended to eliminate FY 2007 and 2008 Performance Adjustments

⁶ Authorized for 19 pay periods in FY 2013. Increase was added to base salary for uncovered employees in FY 2014

Since FY 2009, SPS salaries have increased an average of 1.1% per year, despite only one legislatively appropriated base pay increase during that time period. This can be attributed to a number of factors that include replacing workers with those earning higher pay than predecessors, a shifting workforce comprised of fewer unskilled jobs, and the continued use of the current classification system to address compensation issues (discussed further in “Recent and Future Changes to State Government Workforce”)

Turnover Rates⁷

The turnover rate within the State Personnel System held constant from FY 2017 levels at 18.1%, while the State and Local Government average saw a slight uptick this year. The State has consistently held turnover slightly lower than our counterparts in this benchmark for the past 6 fiscal years but has continued to trend similarly.

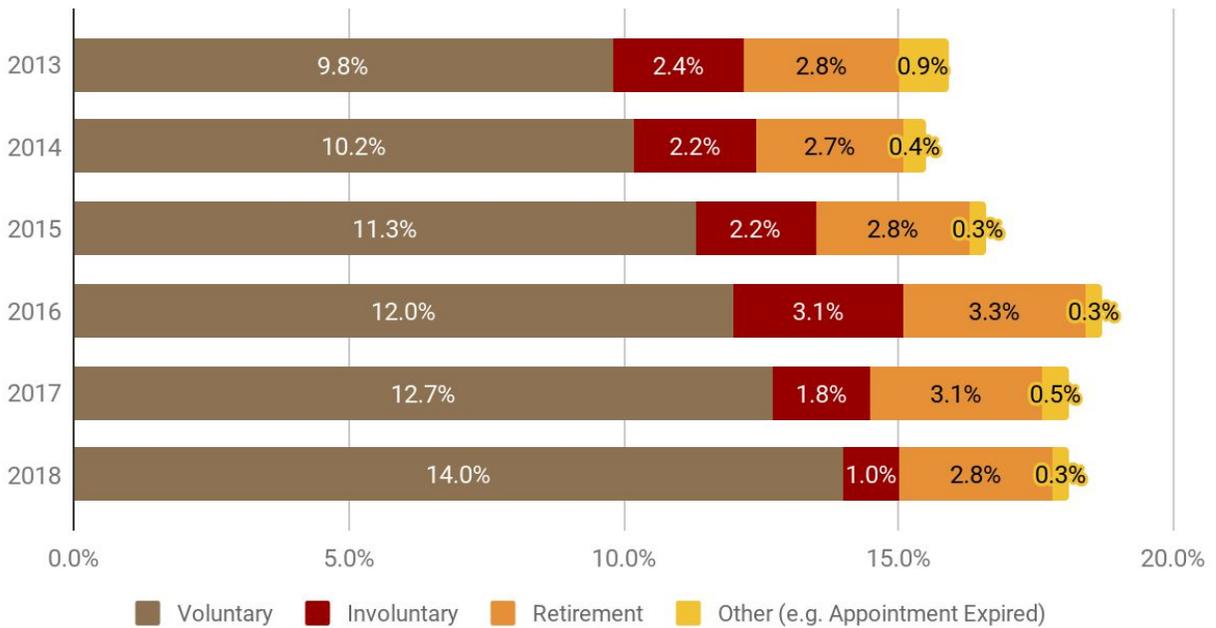


While overall turnover remained unchanged, the percentage of employees separating voluntarily increased for the fifth straight year. Separation due to retirement continues to

⁷ Comparative data from the US Department of Labor’s Bureau of Labor Statistics--seasonally adjusted turnover rates for state and local government.

hover around the 3% mark. Most notable is the reduction in involuntary separations to just 1%.

SPS Historical Turnover by Type

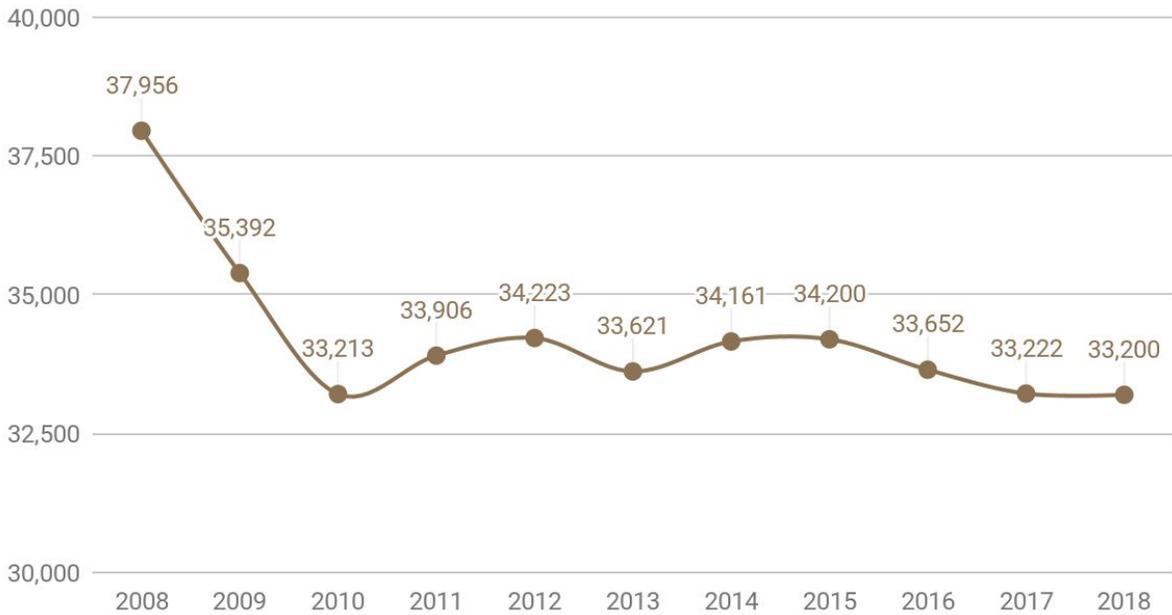


Reduction in Total Size of Government

The total size of State government was reduced dramatically during the years from 2008 to 2010, as the State managed one of the worst fiscal crises in history. During those years, reductions in force and layoffs occurred in most agencies, and a hiring freeze was implemented that ensured further reductions through attrition. Since that time, workforce levels have varied less than 2% per year.

In FY 2018, the State Personnel System contained 33,200 employees, virtually unchanged from the prior fiscal year. This represents a 14.4% reduction in staff from 2008 levels. Interestingly, during this same time period the population served by these employees has increased by an estimated 13.1%⁸.

SPS Historical Employee Count



Average Age of the Workforce⁹

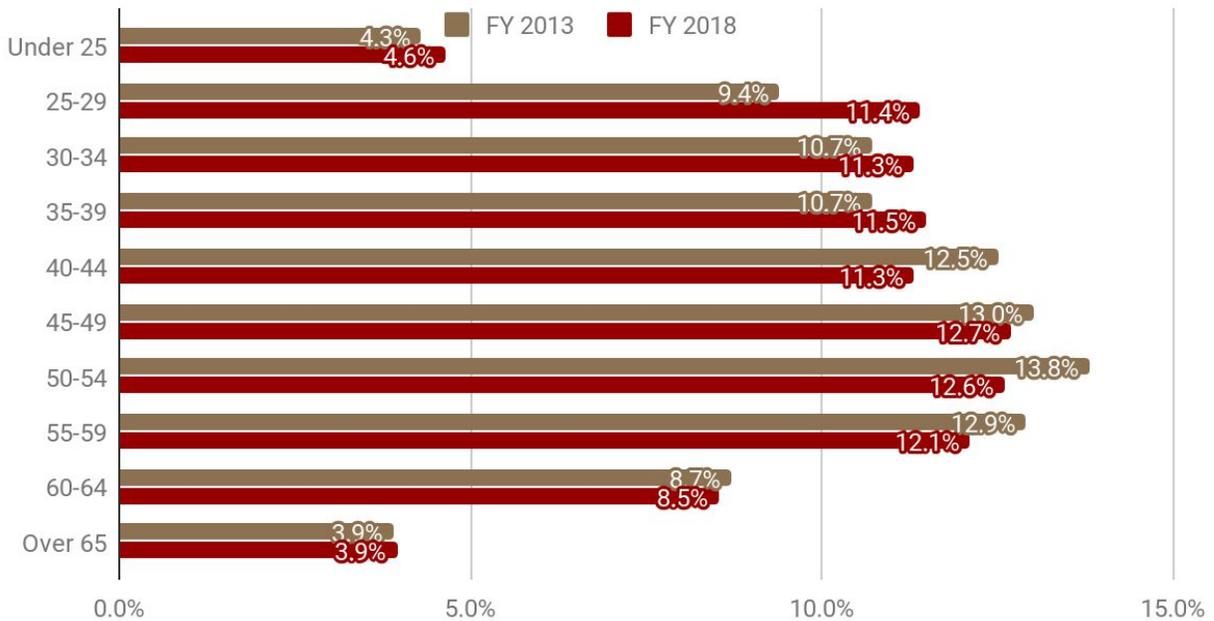
In FY 2018 the average age of a State employee was 44.7 years, and the largest age group was in the 45-49 age group. Last fiscal year, the most populous category was the 50-54 age group. Compared with the age distribution from 2013, the State Personnel System has increased the percentages of all categories less than 40 and decreased percentages in every category 40 or older. In fact, over this period we’ve experienced a net gain of 1085 workers under 40 and a net loss of 1474 workers 40 or older.

⁸ Source: US Census Bureau population estimates 2008-2017 and Arizona Demographer’s Office projection for 2018.

⁹ From the 2018 Workforce Report

While the State's workforce is gradually getting younger, it's important to find a balance between attracting new younger talent and retaining highly proficient, experienced workers that hold valuable institutional knowledge.

SPS Workforce Age Distribution: 2013 vs. 2018



Retirement Rates and Projections¹⁰

An analysis of employees that meet the criteria for normal retirement in the State agencies with at least 50 employees revealed the following:

- Five agencies are projected to have at least 20% of their workforce meet criteria for retirement in the current fiscal year.
- Twenty-six agencies are projected to have at least 25% of their workforce meet criteria for retirement within the next five years.
- There are twelve agencies that are estimated to have over one-third (33.3%) of their current workforce meet criteria for retirement in five years.

¹⁰ From the 2018 Workforce Report. Projected rates of employees that meet criteria for retirement is based on years of service and age criteria for normal retirement from the ASRS and PSPRS. Calculations do not factor in opportunities for early retirement, or those that may have already retired and returned to the workforce.

Overall, considering the entire personnel system, over 26% of the workforce is estimated to meet criteria for retirement within the next five years. While not all of these employees will separate in that time period, we need to prepare for the possibility of backfilling a quarter of the employee population. This only reinforces the need to become and remain competitive in the labor market.

Current Environment – Competitive Job Market

Market Movement

The job market is constantly moving, and the State’s market position must continually be analyzed to assess the competitive position of the State with respect to the market. Market salaries are influenced by the overall economy at the national and local levels as well as the relative demand for a particular skill or job family. Multiple salary budgeting surveys are conducted and published each year to assess what employers project for future salary increases as well as actual percentage increases awarded in the current year. The following table is a collection of some of the most recent data available.

Published Salary Increase History & Projections

Reference	2017 Actual	2018 Actual	2019 Projected
National - Korn Ferry Hay Group	2.8%	3.0%	3.0%
National - WorldatWork	3.0%	3.1%	3.2%
National - Mercer	2.8%	2.8%	2.9%
Local (Private Sector Only) AZ Compensation Survey	2.7%	2.8%	3.1%
Local (All Participants) AZ Compensation Survey	2.4%	2.5%	2.7%
Local (Public Sector Only) AZ Compensation Survey	1.8%	1.8%	1.9%
State of Arizona	0.0%	0.0%	tbd

Distance to Market¹¹

Every year the State conducts a formal analysis of market pricing jobs to assess the relative position of State salaries with the external job market. The most recent analysis of market competitiveness suggests the market exceeds State employee base salaries by an estimated 18.2%. This represents a weighted average of state employee salaries within the State Personnel System classifications, and the overall distance they are from the market rate. In years past, ADOA published this as a year-over-year comparison. However, it has become increasingly difficult to draw meaningful conclusions comparing any two years. This is due to a number of factors including the staggered use of various salary surveys to decrease costs to the State, changes to surveyed jobs or respondents within those surveys, changes to our own job classifications throughout the years, and an ever-changing State employee workforce. These factors lead to inevitable fluctuations in this figure each year.

¹¹ Percent needed to get to market is calculated based on a suite of salary surveys as compared to average State employee salaries in each job classification.

Recent and Future Changes to State Government Workforce

Classification System

The current classification system has been in place for several decades, despite multiple attempts to overhaul and revise it. Over the years, it has evolved to become a means of addressing compensation issues when jobs haven't kept up with market and base pay increases have been rare. Several practices have become the norm that result in using the classification system to provide salary increases to certain small groups of employees that are not available to all State employees. Maintaining this cumbersome system is highly inefficient, and allows for perceived pay inconsistencies within and among agencies, as well as creating burdensome administration practices.

Beginning in FY 2014, small pockets of classification reform were implemented to foster market competitiveness and create meaningful career paths for employees in those job families. In FY 2017, a national consultant was retained to assist in a system-wide classification reform project. The consultancy portion of this project was completed and the Human Resources Division is preparing for change management and system integration considerations with the State's automated personnel system. The goal of this on-going project will result in a consolidated, externally competitive and internally equitable classification system. Employees will be allocated to the appropriate job classification within a job family that allows for clear line of sight to multiple career paths within their agency and statewide.

Strategic Workforce Planning

In planning to recruit, retain, and motivate the employees of the State Personnel System today and into the future, some of the trends outlined in this document need to be assessed. While the size of the workforce has been reduced, state employees have been asked to serve a state experiencing tremendous population growth. These conflicting challenges may reach a point where certain jobs face a shortage of staff to adequately serve the public. While we have managed to attract greater numbers of younger workers than in years past, salaries have remained mostly unchanged leaving the possibility of greater retention issues down the road. As more employees separate employment either

voluntarily or through retirement, we need to ensure that those vacancies are attractive to outside candidates. This is especially true in jobs that require greater expertise, education, or technical knowledge than in years past, or jobs where we compete for talent with the private sector. It is critical that current and prospective employees have line of sight for competitive salaries and possible career paths.

Conclusion and Recommendations

Classification reform will result in more competitive salary ranges and better opportunities for career paths for our workforce. This initiative, when combined with strategic workforce planning is expected to drive improvements within the people systems of the state performance management system. Focusing on these areas, combined with the already implemented agency flexibility with compensation strategies will strengthen our workforce.

Classification reform will realign grades and salary ranges to become more reflective of actual market conditions. This will provide agency leadership with the tools and information needed to strategically target their limited resources to the business functions that provide the highest return for their investment.

The Department of Administration does not have a specific salary proposal for FY 2020; however, the Department stands ready to provide relevant workforce compensation data to aid in the budget development process.