



# 2019 Advisory Recommendation

## Arizona Department of Administration

## Introduction

The Arizona Department of Administration (ADOA) provides an annual Advisory Recommendation to the Governor and the Legislature pursuant to A.R.S. § 41-751. This document provides an analysis of the State Personnel System<sup>1</sup> (SPS) workforce focusing most heavily on the size, current salary demographics, historical pay changes, and a comparison vs. external data points.

This report reflects the current status of SPS employee compensation as it relates to market conditions at the end of Fiscal Year 2019. The report is provided as a resource to aid in the preparation of the Fiscal Year 2021 budget.

## Current Environment – State Government

### Reduction in Total Size of Government

The total size of the SPS was reduced dramatically from 2008 to 2010, as the state managed through the *Great Recession*. 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.

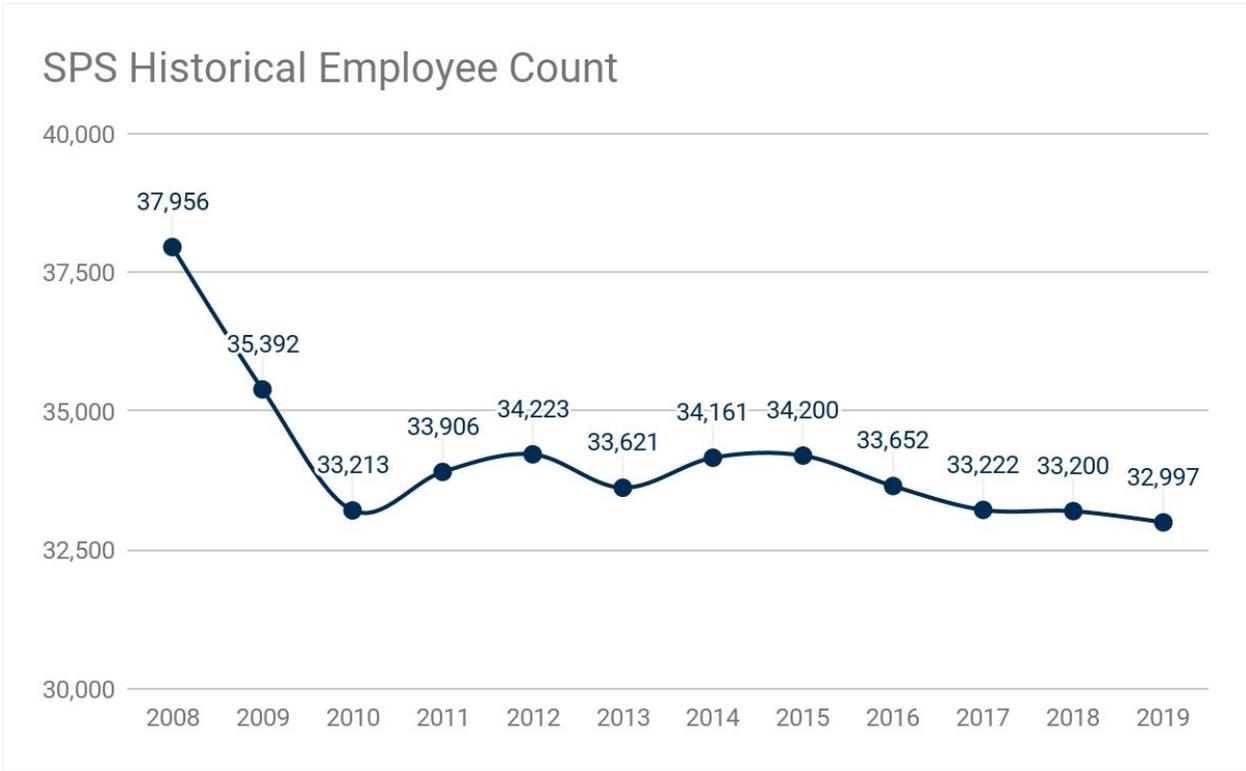
In FY 2019, the State Personnel System contained 32,997 employees, a slight decrease from the previous year. This represents a 15% reduction in staff from 2008 levels. During this same time period the population of Arizona served by this workforce has increased by an estimated 14.4%<sup>2</sup>.

---

<sup>1</sup> All agencies within the Executive Branch excluding Department of Public Safety (DPS), Arizona School for the Deaf and Blind (ASDB), Arizona Board of Regents, Peace Officer Standards Training Board, Cotton Research and Protection Council, and the State Universities

<sup>2</sup> Source: US Census Bureau population estimates 2008-2018 and Arizona Demographer's Office projection for 2019.

---



### History of Salary Adjustments<sup>3</sup>

The following table illustrates the salary increase history for State Personnel System employees since FY 2010. With the passage of the FY 2020 budget, several groups of employees were awarded salary increases. The employees impacted were primarily public safety and security-focused such as Correctional Officers, Peace Officers, Child Safety Specialists, and employees within DPS. Salary increases awarded varied by job title. The average salary reported for 2019 of \$47,998 includes these increases as they were in place before the last day of the fiscal year (effective 6/15/19, paid in the first payroll of FY 2020). These salary increases resulted in a 3.1% increase to the overall average salary.

<sup>3</sup> Source: JLBC Appropriations Reports

Fiscal Year	Average Salary	% Change in Average	Salary Increase Type			Allocations for Select Classes
			General Salary Adjustment	Performance	Retention	
2010	\$42,304		-	-	-	<b>x</b>
2011	\$42,235	-0.2%	-1.92% <sup>4</sup>	-2.75% <sup>5</sup>	-	<b>x</b>
2012	\$42,322	0.2%	-	-	-	<b>x</b>
2013	\$42,447	0.3%	-	-	5.0% <sup>6</sup>	<b>x</b>
2014	\$43,832	3.2%	-	-	-	<b>x</b>
2015	\$44,116	0.6%	-	-	-	<b>x</b>
2016	\$45,062	2.1%	-	-	-	<b>x</b>
2017	\$45,981	2.0%	-	-	-	<b>x</b>
2018	\$46,548	1.2%	-	-	-	<b>x</b>
2019	\$47,998	3.1%	-	-	-	<b>x</b>
2020	tbd	tbd	-	-	-	✓ <sup>7</sup>

## Current Environment – External Job Market

### Market Movement

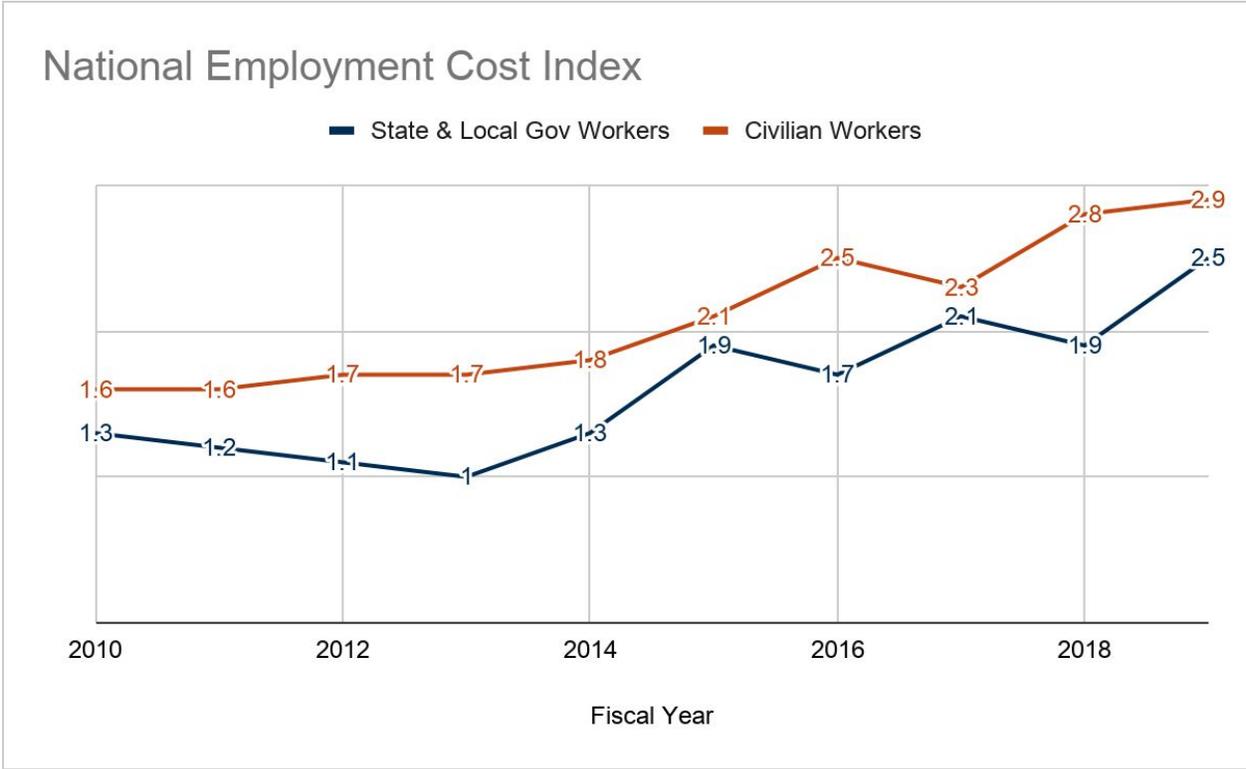
The cost of labor is continually increasing as employers compete for talent and existing employees receive pay increases over time. The state’s market position must be analyzed to assess its competitive position compared to other employers. Market salaries are influenced by the overall economy at the national and local levels as well as the relative demand for a particular type of work. The following table shows data from the Bureau of Labor Statistics called the Employment Cost Index (ECI) which measures the cost of labor. This shows percentage increases to wages since 2010, illustrating that not only do labor costs increase every year, the rate of increase has escalated.

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

<sup>5</sup> Performance pay reduction intended to eliminate FY 2007 and 2008 Performance Adjustments

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

<sup>7</sup> Included varying salary adjustments for public safety and security positions



Multiple salary budgeting surveys are conducted by external vendors and published each year to assess salary increases awarded within the current year by employers as well as their projections for future salary increases. The following table is a collection of some of the most recent data available.

**Published Salary Increase History & Projections**

Reference	2019 Actual	2020 Projected
National - Salary.com	3.0%	3.0%
National - WorldatWork	3.2%	3.3%
National - Mercer	2.9%	3.0%
Local (Private Sector Only) AZ Compensation Survey	3.0%	3.0%
Local (All Participants) AZ Compensation Survey	3.0%	3.0%
Local (Public Sector Only) AZ Compensation Survey	2.2%	2.0%
<b>Arizona - State Personnel System</b>	<b>0.0%</b>	<b>N/A<sup>8</sup></b>

<sup>8</sup> Impact to the overall SPS average salary from increases awarded from the FY 2020 budget was 3.1%. Full fiscal year impact unknown until the end of FY 2020.

The table above shows that most employers responding to various third-party surveys paid on average 3% more for labor in 2019 than they did in 2018. Or more simply, most employers expect total payroll to increase by about 3% every year. This figure has remained nearly constant for over a decade with the exception of the *Great Recession*. While this is a good benchmark to consider when looking at overall market movement, it's important to point out that the market for individual jobs may outpace this figure. This is why the state market prices jobs individually.

### **Distance to Market**

Using a suite of external third-party salary surveys, ADOA market prices SPS jobs to assess the relative position of state salaries compared to the external job market. The most recent analysis of market competitiveness suggests the market exceeds state employee base salaries by an estimated 21.6%. This represents a weighted average of state employee salaries within SPS job classifications, and the percentage from their corresponding market rates. While a portion of the workforce received salary increases just prior to FY 2020, the majority did not, including some of the lowest paid workers where the state minimum wage is driving rates up dramatically. This is a complex, moving target, but the following chart shows the historical context of this latest figure:

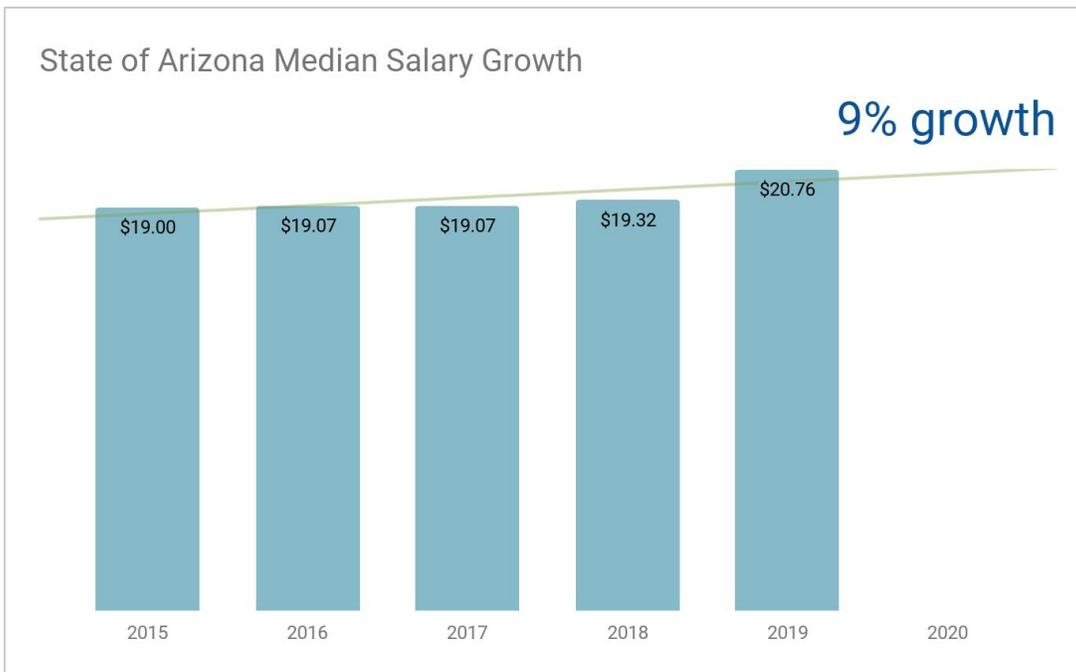
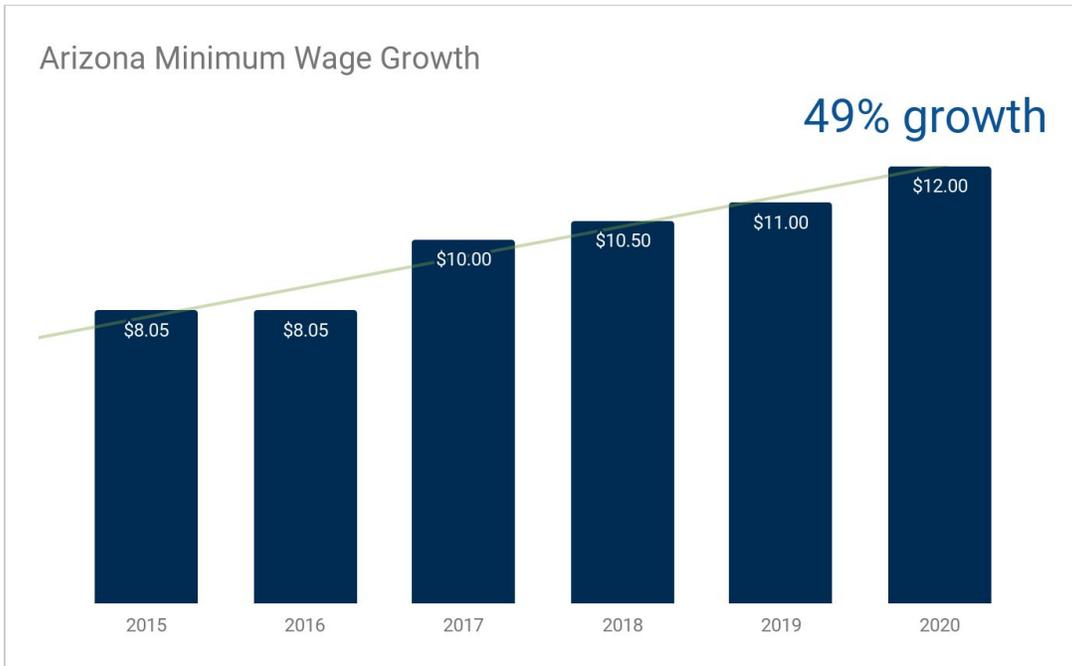


## Relevant Issues Impacting State Government Workforce

### State Minimum Wage

One of the most pressing issues facing the State Personnel System is the passing of Proposition 206 in 2016. This proposition increased the state minimum wage according to a predetermined schedule culminating with a \$12.00 per hour minimum effective January 1, 2020. (Subsequent annual increases to the minimum wage are yet to be determined but will be based on the cost of living.) While the proposition did not directly apply to state employees, the increases effectively ensured that without compliance, employees in the lowest-paying jobs could earn more money with any other employer in Arizona.

In 2016, the state minimum wage was \$8.05 per hour. The 2020 minimum wage will represent nearly a 50% increase to that rate in four years time. During that same time period, the SPS median salary increased by 9%.



The speed and magnitude of these pay changes will create a domino effect within the job structure. For example, by merely complying with the 2020 state minimum wage, employee salaries will compress, where differentiation currently exists based on experience, qualifications, and performance. Or worse, the salary compression could take

away the incentive for an employee to become a supervisor if there isn't enough salary differentiation to make it worth the added responsibility. This is why it's necessary to look at this issue holistically and ensure that downstream effects are analyzed and appropriately dealt with.

## Conclusion and Recommendations

While positive strides have been made with certain portions of the workforce, this report shows several current issues that the State Personnel System faces. The Department of Administration does not have a specific recommendation for FY 2021, however the Department stands ready to provide relevant workforce compensation data to aid in the budget development process.