

# The Mississippi Legislature



## **A Review of the State Personnel Board's Realignment Component of the Variable Compensation Plan**

**December 12, 1995**

The State Personnel Board (SPB) does not use a valid survey process to determine prevailing compensation among employers who compete for personnel. Flaws in the survey process reduce the confidence that legislators can place in SPB's realignment recommendations.

In response to a legislative request, PEER found that in general the average salary for lower-paid occupations in state government is slightly higher than the average paid for the same occupations by employers in all other industries. However, in certain occupations, average state salaries are substantially higher or lower than average salaries paid by employers in all other industries.

The report recommends legislation to set minimum standards for maintenance of the Variable Compensation Plan and require SPB to prepare a strategic evaluation of the plan by February 1, 1997.

## **The PEER Committee**

## **PEER: The Mississippi Legislature's Oversight Agency**

The Mississippi Legislature created the Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER Committee) by statute in 1973. A standing joint committee, the PEER Committee is composed of five members of the House of Representatives appointed by the Speaker and five members of the Senate appointed by the Lieutenant Governor. Appointments are made for four-year terms with one Senator and one Representative appointed from each of the U. S. Congressional Districts. Committee officers are elected by the membership with officers alternating annually between the two houses. All Committee actions by statute require a majority vote of three Representatives and three Senators voting in the affirmative.

Mississippi's constitution gives the Legislature broad power to conduct examinations and investigations. PEER is authorized by law to review any public entity, including contractors supported in whole or in part by public funds, and to address any issues which may require legislative action. PEER has statutory access to all state and local records and has subpoena power to compel testimony or the production of documents.

PEER provides a variety of services to the Legislature, including program evaluations, economy and efficiency reviews, financial audits, limited scope evaluations, fiscal notes, special investigations, briefings to individual legislators, testimony, and other governmental research and assistance. The Committee identifies inefficiency or ineffectiveness or a failure to accomplish legislative objectives, and makes recommendations for redefinition, redirection, redistribution and/or restructuring of Mississippi government. As directed by and subject to the prior approval of the PEER Committee, the Committee's professional staff executes audit and evaluation projects obtaining information and developing options for consideration by the Committee. The PEER Committee releases reports to the Legislature, Governor, Lieutenant Governor, and the agency examined.

The Committee assigns top priority to written requests from individual legislators and legislative committees. The Committee also considers PEER staff proposals and written requests from state officials and others.

**A Review of the State Personnel Board's Realignment  
Component of the Variable Compensation Plan**

**December 12, 1995**

**PEER Committee  
Mississippi Legislature**

The Mississippi Legislature

**Joint Committee on Performance Evaluation and Expenditure Review**

PEER Committee

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December 12, 1995

Honorable Kirk Fordice, Governor  
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At its meeting of December 12, 1995, the PEER Committee authorized release of the report entitled **A Review of the State Personnel Board's Realignment Component of the Variable Compensation Plan.**

A handwritten signature in cursive script that reads "Alyce Clarke".

Representative Alyce Clarke, Chairman

**This report does not recommend increased  
funding or additional staff.**

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# A Review of the State Personnel Board's Realignment Component of the Variable Compensation Plan

December 12, 1995

## *Executive Summary*

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### **Introduction**

Mississippi's Variable Compensation Plan provides the framework for the state government compensation system. In response to a joint legislative request, the PEER Committee reviewed the State Personnel Board's administration of the salary survey and realignment recommendation components of the Variable Compensation Plan.

### **Overview**

#### **Are the State Personnel Board's labor market surveys, as currently administered, a valid resource for decisionmaking?**

The State Personnel Board (SPB) fails to administer the surveys in a manner that sufficiently guarantees an accurate picture of the prevailing wages among employers who compete for state employees. In summary:

- SPB defines all employers who compete for all classes of state employees as:
  - the four contiguous state governments,
  - arbitrarily selected Mississippi private sector employers, and
  - selected local government employers, rather than identifying and sampling from the group of all employers who actually compete for state employees;
- SPB surveys the same select group of employers annually, which allows this small group to drive SPB's realignment recommendations, rather than randomly selecting survey participants from all employers whose positions make up the potential labor market for state employees;
- SPB collects data on salaries only, rather than total compensation, which includes

fringe benefits costs to the employer (e.g., holidays, personal and sick leave, social security, retirement);

- SPB has not provided an empirically defensible basis for selecting job classes to be surveyed or for realigning classes that are not surveyed;
- SPB eliminates extremely high and low salary responses on an arbitrary basis rather than using a scientific approach to eliminate extreme values;
- SPB bases realignment recommendations on simple averages of the salaries employers report, rather than using a method that accounts for the number of positions to which each reported salary applies (SPB's method has potential for biasing realignment recommendations in favor of salaries paid by employers with few employees); and,
- SPB provides positive realignment recommendations only (salary range increases), even when survey results show the need for negative realignment (salary range decreases).

Each of these areas of imprecision contributes to potential loss of precision in SPB's labor market surveys and reduces the confidence that decisionmakers can place in the results. During the last three fiscal years (FY 1994 through FY 1996), the Legislature has relied upon SPB's recommendations to appropriate over \$56.7 million for realignment of state occupational classes.

The lack of a valid compensation survey leaves the Joint Legislative Budget Committee and House and Senate Appropriations committees without an accurate picture of how much should be appropriated to keep salaries competitive with those paid by employers in the relevant labor market.



**Are the salaries of state employees in lower-skilled jobs higher than salaries paid by other employers with comparable positions?**

PEER compared state salaries to salaries paid by other Mississippi employers for lower-skilled occupations (defined by PEER as those for which Mississippi employers outside state government pay less than \$17,285 annually) with wages of employees in the same occupations in the private sector industries and in federal and local governments in Mississippi. This comparison showed that state employees in lower-skilled positions generally are paid slightly more than employees in the same occupations outside of state government. However, no government agency has collected the fringe benefit data needed to complete this comparison.

**Recommendations**

1. During the 1996 Regular Session, the SPB should use available information to refine its realignment recommendations for FY 1997. To arrive at these refinements, SPB should perform a detailed analysis of MESC's salary survey reports to identify job classes that are most in need of realignment and should find more valid links between job classes for which SPB surveyed salaries and job classes that were not surveyed. SPB should report revised realignment recommendations to the Legislature for use in the FY 1997 appropriation process.

2. The Legislature should consider amending MISS. CODE ANN. §25-9-147 to require SPB to set standards for the Variable Compensation Plan (see page 21 of report for specifics of the recommendation).

3. The State Personnel Board should provide a written report of findings regarding the Variable Compensation Plan to the Legislature by February 1, 1997. This report should address each of the following questions:

- What method should the state use to guide its employee compensation system? Should the state continue to use the Variable Compensation Plan as the basis for determining employee compensation?
- How should the method be applied to the state's compensation system? Should the state survey employers within the relevant labor market to determine prevailing wages for job classes? Should the state use labor market data collected by other entities (e.g., MESC)?
- Who should administer the employee compensation system? What parts could or should be handled by entities other than the State Personnel Board (e.g., Joint Legislative Budget Committee, Mississippi Employment Security Commission, a university research unit, or a private contractor)? What are the costs and benefits of each alternative?

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# **A Review of the State Personnel Board's Realignment Component of the Variable Compensation Plan**

## ***Introduction***

### **Authority**

In response to a joint legislative request, the PEER Committee reviewed the State Personnel Board's administration of the salary survey and realignment recommendation components of the Variable Compensation Plan. The Committee conducted its review pursuant to MISS. CODE ANN. §5-3-57, et seq., (1972).

### **Scope and Purpose**

The review sought to answer the following questions:

- Are the State Personnel Board's labor market surveys, as currently administered, a valid resource for decisionmaking?
- Are the salaries of state employees in lower-skilled jobs higher than salaries paid by other employers with comparable positions?

### **Method**

During the course of the review, PEER:

- reviewed the State Personnel Board's workpapers and files relative to the administration of the realignment function of the Variable Compensation Plan;
- reviewed current literature on survey administration and sampling techniques;
- interviewed State Personnel Board, Legislative Budget Office, and House and Senate Appropriation committees' staff;
- compared state salaries to salaries paid by other Mississippi employers for lower-skilled occupations (defined by PEER as those for which Mississippi employers outside state government pay less than \$17,285 annually);
- researched alternative approaches to the current survey and recommendation processes; and,

- researched state law relative to the roles and responsibilities of agencies charged with the administration of Variable Compensation Plan.

## Overview

### **Are the State Personnel Board's labor market surveys, as currently administered, a valid resource for decisionmaking?**

The State Personnel Board (SPB) fails to administer the surveys in a manner that sufficiently guarantees an accurate picture of the prevailing wages among employers who compete for state employees. In summary:

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- SPB surveys the same select group of employers annually, which allows this small group to drive SPB's realignment recommendations, rather than randomly selecting survey participants from all employers whose positions make up the potential labor market for state employees;
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- SPB has not provided an empirically defensible basis for selecting job classes to be surveyed or for realigning classes that are not surveyed;
- SPB eliminates extremely high and low salary responses on an arbitrary basis rather than using a scientific approach to eliminate extreme values;
- SPB bases realignment recommendations on simple averages of the salaries employers report, rather than using a method that accounts for the number of positions to which each reported salary applies (SPB's method has potential for biasing realignment recommendations in favor of salaries paid by employers with few employees); and,
- SPB provides positive realignment recommendations only (salary range increases), even when survey results show the need for negative realignment (salary range decreases).

Each of these areas of imprecision contributes to potential loss of precision in SPB's labor market surveys and reduces the confidence that decisionmakers

can place in the results. During the last three fiscal years (FY 1994 through FY 1996), the Legislature has relied upon SPB'S recommendations to appropriate over \$56.7 million for realignment of state occupational classes. The lack of a valid compensation survey leaves the Joint Legislative Budget Committee and House and Senate Appropriations committees without an accurate picture of how much should be appropriated to keep salaries competitive with those paid by employers in the relevant labor market.

**Are the salaries of state employees in lower-skilled jobs higher than salaries paid by other employers with comparable positions?**

PEER compared state salaries to salaries paid by other Mississippi employers for lower-skilled occupations (defined by PEER as those for which Mississippi employers outside state government pay less than \$17,285 annually) with wages of employees in the same occupations in the private sector industries and in federal and local governments in Mississippi. This comparison showed that state employees in lower-skilled positions generally are paid slightly more than employees in the same occupations outside of state government. However, no government agency has collected the fringe benefit data needed to complete this comparison.

## ***Background***

### **Variable Compensation Plan**

The Variable Compensation Plan (VCP) represented a major change in the way Mississippi planned and implemented compensation packages for its state employees. Prior to the plan's implementation in Fiscal Year 1982, Mississippi had granted pay increases to its employees through a grade and step system that severely limited SPB's and state agencies' abilities to adjust salaries with precision and fairness.

During the late 1970s, state government, like the remainder of the public sector and the private sector, experienced high inflation. Agency budget requests contained pay increases, as well as requests for more employment positions. Because of these increased demands on state revenues, the Legislature directed the State Personnel Board, created in 1980, to study compensation of employees and determine if a better way to accomplish compensation could be developed.

In general, conclusions reached by the State Personnel Board were that Mississippi was not competitive with surrounding states and the private sector in compensating state employees in certain jobs. The state also lacked the capacity to reflect job worth in its method of compensating employees, as pay raises were given across the board without regard to the market value of a job. Related to these problems were that agency employers had no means of paying employees more than the authorized starting salary for a job and could not pay employees for high productivity. In response to these problems, SPB proposed implementation of the Variable Compensation Plan.

The Variable Compensation Plan, later renamed the Colonel Guy Groff Variable Compensation Plan (MISS. CODE ANN. §25-9-147 [1972]), provides the framework for Mississippi's state government compensation system. The VCP is composed of four major components:

- Realignment ensures that the pay ranges for occupations are commensurate with similar positions in the relevant labor market. SPB uses labor market surveys to determine the starting salaries for occupations in the relevant labor market;
- Productivity, or merit provisions, compensates employees for their high job performance. Productivity payments are based upon performance appraisals and administered by agency managers;
- In-service, or cost-of-living adjustments; and,
- Longevity rewards employees who have reached the end step within their position's pay range for extended public service to the state with one-time, lump-sum payments.

The State Personnel Board staff conducts the annual labor market survey of salaries upon which SPB bases its realignment recommendations. SPB staff estimates the FY 1996 cost of administering the salary survey to be \$32,150, which includes costs for the time of four employees and miscellaneous expenses (e.g., mailing and supplies).

Over the years, SPB has attempted to respond to changing human resource trends and the needs of state agencies by adding to the VCP new hire and promotion flexibility, executive service compensation plans, educational benchmarks, and special compensation packages (see Appendix A, page 23).

### **PEER's Previous Reviews of the State Personnel Board**

In 1987, the PEER Committee issued a report titled *A Management and Operational Review of the State Personnel Board* (December 10, 1987). In this review, the Committee reported that SPB failed to administer correctly and report accurately the findings from its salary surveys. Although conducted in good faith by the board's staff, labor market surveys were methodologically flawed by sample selection oversights, subjective adjustments, and erroneous interpretations which resulted in incomplete and inaccurate comparative data on the salary levels needed to attract applicants and retain state employees. Furthermore, SPB reported arbitrarily adjusted survey results to the Legislature.

Again in 1994, the PEER Committee issued a report titled *A Performance Evaluation and Expenditure Review of the State Personnel Board* (September 14, 1994). While many of the errors noted in PEER's previous report were being corrected, SPB continued to define the relevant labor market inappropriately. Although the SPB had improved its definition of the relevant labor market by including private sector entities in the survey (which it had not done prior to 1987), SPB failed to identify the relevant labor market for each job class. SPB maintained that the relevant labor market for all state job classes was the four contiguous states and the Mississippi private sector.

Many of the areas noted in PEER's previous reports continue to be weaknesses, as detailed in this report.

## *Findings*

### **Labor Market Surveys**

**SPB fails to use a valid labor market survey process to determine prevailing compensation among employers who compete for state employees.**

Realignment is a critical feature of the Variable Compensation Plan because it is designed to ensure that state employees receive comparable compensation to their private sector counterparts. As noted above, this is accomplished through administering a compensation survey of the relevant labor market. SPB has administered a survey for this purpose since the implementation of the VCP in Fiscal Year 1982.

In order to determine whether the SPB's labor market survey measures what it purports to measure, PEER examined whether the:

- survey measures compensation (full or partial);
- survey targets a relevant group of employers (all or certain sectors);
- survey uses a representative sample of employers;
- results accurately reflect compensation in the relevant labor market (analysis includes all relevant data and arrives at proper statistics);
- results are applicable to all state job classes (including non-surveyed classes); and,
- results are used to maximize the extent of realignment (reflect upward and downward movement in the relevant labor market).

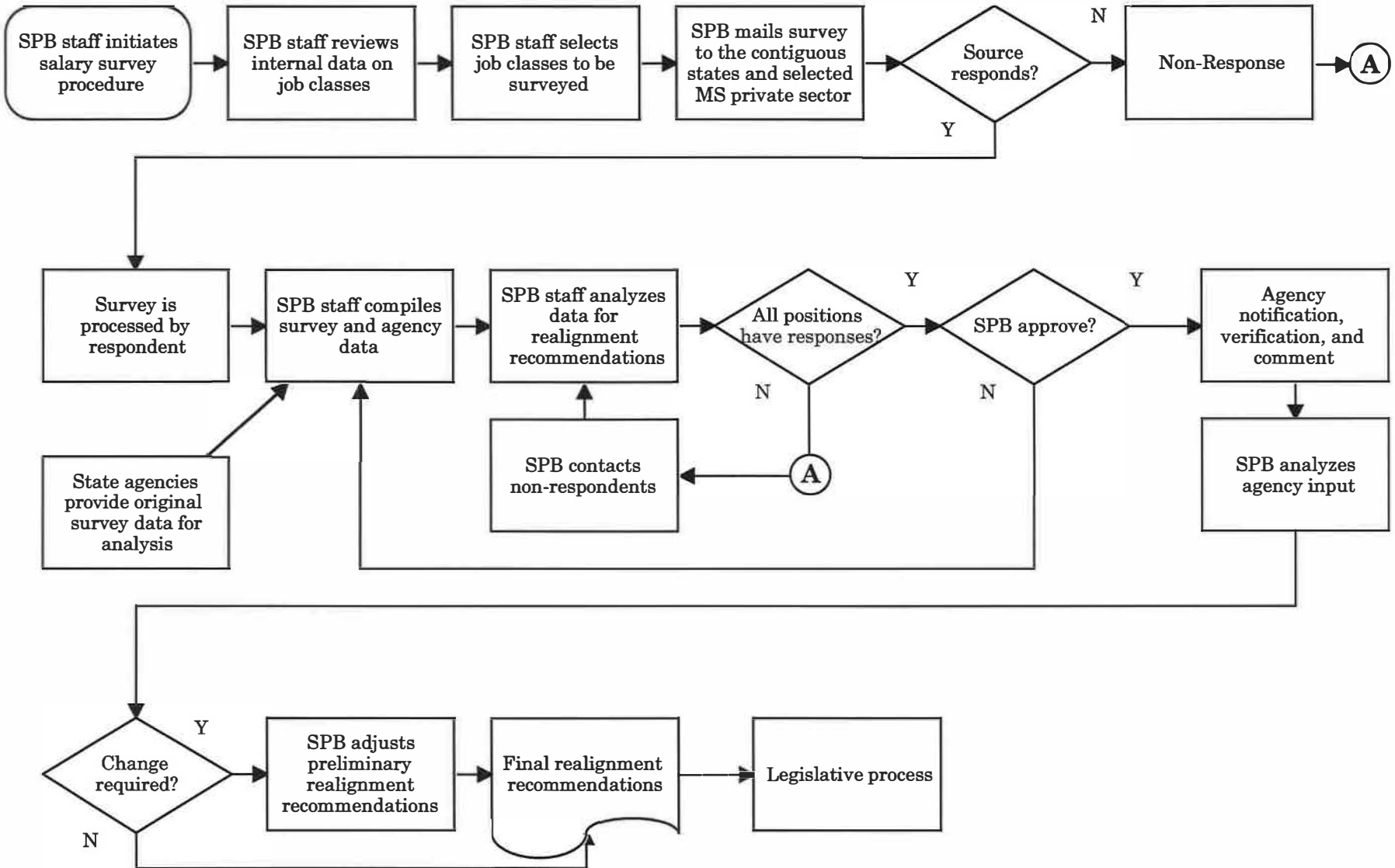
The State Personnel Board staff collects starting salary data relative to surveyed job classes for the purposes of developing realignment recommendations for all state job classes. Exhibit 1, page 7, illustrates the survey process and realignment recommendation procedures. The following is a discussion of PEER's findings relative to the administration of SPB's labor market surveys.

### *Compensation*

- *SPB surveys cover salary ranges only, rather than total compensation, which includes fringe benefits costs to the employer (e.g., holidays, personal and sick leave, social security, retirement, etc.) as was intended in the original concept of the VCP.*

During two presentations in early 1980s, the then-State Personnel Director maintained that fringe benefits are an essential factor in determining

**Exhibit 1**  
**Salary Survey and Realignment Recommendation Process**



SOURCE: PEER analysis.



compensation and that information regarding fringe benefits would be included in the salary survey. The original concept of the Variable Compensation Plan centers around the idea of pay comparability, and for a valid comparison to be made, total compensation, including fringe benefits, must be studied.

SPB has made no attempt to survey or calculate fringe benefit costs for employers through its annual survey. According to SPB staff, they could collect fringe benefit data; however, total compensation has not been an issue in the past and the staff's workload would significantly increase due to the calculation of fringe benefit values for each surveyed class.

Traditionally, SPB and the Legislature discuss the cost of fringe benefits as a percentage of an employee's salary and do not include factors such as holidays and leave (i.e., personal and major medical). However, leave and holidays account for lost productivity and do have an associated cost for each employee. The Southeastern Salary Conference, a consortium of fourteen state government personnel agencies, defines fringe benefits as the employer's contributions for:

- holidays;
- personal, major medical, and other leave;
- medical, dental, life, long-term disability, and unemployment insurance;
- worker's compensation;
- Social Security;
- Medicare;
- retirement; and,
- longevity (if not part of base pay).

The Southeastern Salary Conference found in its study comparing state government personnel benefits throughout the Southeast that fringe benefits vary significantly from state to state (see Exhibit 2, page 9). For example, the states' costs for fringe benefits for an employee earning \$24,000 annually with thirteen years of service range from 40.1 to 56.4 percent of the state employee's salary. Although Florida and Mississippi did not report 1995 employer costs in the study, PEER calculated Mississippi's fringe benefit costs using the same methodology used in the Southeastern Salary Conference study. Exhibit 2 shows Mississippi spends less on state employee fringe benefits than do nine other states in the study.

## Exhibit 2

### 1995 Estimated Employer Benefit Costs for a \$24,000 Annual Salary, By Fringe Cost Percentage

State	Fringe Benefit Cost
Georgia	56.43%
Tennessee	54.22%
West Virginia	51.70%
Virginia	50.43%
Oklahoma	49.80%
Arkansas	49.50%
South Carolina	47.40%
Alabama	46.00%
Missouri	44.48%
<b>Mississippi*</b>	<b>42.50%</b>
Louisiana	41.60%
North Carolina	41.56%
Kentucky	40.08%

\*Mississippi did not report fringe benefit costs. PEER calculated this percentage.

SOURCE: Southeastern Salary Conference; PEER analysis.

By not accounting for fringe benefit costs, the State Personnel Board unnecessarily limits the information available to legislators regarding the compensation of state employees in comparison to their counterparts.

#### *Relevant Labor Market*

- *SPB fails to define the relevant labor market appropriately and does not list all the survey sources within the market.*

To ensure that a sample adequately represents the group that it is intended to represent, the researcher must define the population to be studied (i.e., relevant labor market) and to list all sources within the population (sampling frame) from which one may draw a survey sample. The appropriate definition of the term "relevant labor market" is essential for a valid comparison of compensation between the state and employers with whom the state competes for employees.

The relevant labor market may vary among job classes due to the variation of knowledge, skills, and abilities required for occupations. For example, an accountant may compete for financial-related positions; however, an accountant may not successfully compete for a medical-related position (e.g., physician) without significant training. The job skills required for a position may dictate that the geographical area from which to compare compensation will vary as

well. For example, the state may readily locate typists in a metropolitan area; however, the state may not be able to locate an adequate applicant pool for a specialist job class (e.g., epidemiologists) within a particular geographic area, and therefore may have to expand its geographic boundaries of the labor market.

SPB's definition of the "relevant labor market," which includes selected Mississippi private sector employers, local governments, and the four contiguous state governments for all job classes, is flawed. The state competes with a myriad of public and private employers for the supply of laborers, yet SPB does not recognize any employer outside of its definition as competitors for state employees. For example, SPB does not include federal salaries in the survey because of a concern that such salaries are too high and would skew survey results. Regardless of SPB's assumption about the pay comparability of the federal government to the state, the federal government is a competitor of the state's for some job classes, and its inclusion is essential to any valid comparison of compensation by the state and employers.

Exhaustive research would be needed to identify every employer who competes for workers recruited by the state in every job class. A class-by-class identification of competing employers could entail a substantial investment of resources that could be used more effectively in some other aspect of SPB's process for arriving at realignment recommendations. For this reason, SPB should use a procedure that achieves efficiency as well as precision in identifying employers who compete for workers in each state job class. For example, SPB could define the relevant labor market for each position by combining a general, core definition, such as "all public and private sector employers in Mississippi," with additions or deletions of employers as appropriate. Such additions and deletions could be based on an analysis of data from exit interviews with departing state employees and on other information that SPB could collect regarding recruitment patterns in specific occupations.

Regardless of the method SPB uses to arrive at a general description of the group of employers who comprise the labor market for a job class, SPB should identify each employer who fits within these specifications before drawing a sample to be included in the survey. Listing the members of the sampling frame is essential to a valid random sampling procedure.

By not accurately defining the relevant labor market and identifying all entities within the market, SPB may exclude employers with whom the state competes for employees. This exclusion of employers may yield a bias in the survey results by not accounting for the compensation paid by these employers for comparable positions.

PEER recommended in its 1994 review of the State Personnel Board that SPB promulgate a rule to require exit interviews with employees who leave state service voluntarily to determine which employers are competing for these employees. However, SPB has failed to take action on this recommendation.

### *Representative Sample Selection*

- *SPB surveys include the same select group of employers annually, which allows this small group to drive SPB's realignment recommendations, rather than randomly selecting survey participants from all employers whose positions make up the potential labor market for state employees.*

According to survey research methods literature, the most valid sample selection procedure is a random process. This random selection process guarantees the survey administrator that each source has an equal opportunity of being selected for the survey. Therefore, the random sampling method guarantees a representative sample of the population from which to draw conclusions. This process requires that the administrator accurately define the population, identifying all entities within the market.

Survey research methods also dictate that for a survey to be a valid measure of the population, the sample must be of an appropriate size to reduce the total error of the survey from which an interpretation may be drawn. Thus the number surveyed should be large enough to account for employers who may refuse to respond and still remain a valid measure of the prevailing wages in the labor market. The number surveyed also must be large enough to address adequately the variation in salaries among employers in the population sampled.

SPB uses a judgment sample, which is a subjectively selected group of survey sources chosen on the basis of the researcher's assumptions on the source's representation in the population. SPB has decided to survey a certain group of respondents to determine compensation comparability due to the ease of administration and resource limitations.

Although survey methodologists have developed scientific methods to identify an adequate sample size for surveying, SPB has failed to implement any empirically based method to select an adequate sample size. SPB's method of source selection (see discussion, page 10) limits its ability to select an appropriate sample of employers. Furthermore, SPB does not consistently replace sources who refuse to participate. SPB staff attempt to obtain responses from these non-responding sources; however, if SPB is unable to obtain a response, the source is not consistently replaced. SPB maintains that its efforts accurately depict the prevailing wages in the relevant labor market given the resources it can apply to the labor market surveys.

By not selecting an appropriate sample size to survey, SPB significantly increases the opportunity for error in survey results, therefore decreasing the reliability of the survey as a decisionmaking instrument. By not consistently replacing non-respondents, SPB risks compounding the errors of the survey results by allowing fewer employers to drive the realignment recommendations of the state. Further, sample size has declined for the FY 1997 survey. SPB had 37.4 percent fewer respondents (only seventy-two sources replied to SPB's salary survey) than it did for the FY 1994 survey. By relying upon the same group of

employers, SPB staff may have overlooked key employers within the labor market that compete for state employees.

### *Accurate Results*

- *SPB eliminates extremely high and low salary responses on an arbitrary basis, rather than using a scientific approach to eliminate extreme values.*

As a general rule, all surveys will have suspect responses that may skew interpretations drawn from the data. In order to determine whether a response is suspect, the researcher must determine through a statistical analysis whether the response falls within the acceptable parameters of the survey.

SPB staff review the information for extremely high and low salary responses. In the event that a suspect response is found, SPB staff will confirm the job match with the respondent to determine the appropriateness of the match to the state's job class. SPB examines the knowledge, skills, and abilities required for the surveyed position in comparison to the respondent's position. If the response is a poor match for the surveyed class, SPB will eliminate the response from the data. However, if the response is an acceptable match, SPB staff may still determine arbitrarily that the response is too extreme and eliminate the response.

The arbitrary elimination of responses which have an acceptable job match lowers the reliability of the salary survey because it excludes employers who may compete against the state for similar employees. For example, in the FY 1995 survey, SPB staff excluded an employer's response because it "skews [the] data" for the Security Officer III surveyed class. SPB could not provide any documentation in support of its decision to exclude the response. This employer may represent other employers who pay more than the amount that SPB staff may consider within the acceptable range.

- *SPB uses simple averages of salaries specified in survey results to develop realignment recommendations, rather than using a measure that accounts for the number of positions to which each reported salary applies. SPB's method has potential for biasing realignment recommendations in favor of salaries paid by employers with few employees.*

Survey research methods require the use of the most appropriate measure to reflect and interpret accurately the information gathered. The weighted mean is a superior measure of central tendency in comparison to the simple mean (or simple average) because it accounts for differences among respondents. In the case of the SPB survey, the weighted mean accounts for an employer's strength in the marketplace by accounting for the starting wages paid by the employer and the number of employees working for the employer. The simple mean only accounts for the starting wages provided by the employer. Although SPB staff calculate both simple and weighted averages, they have arbitrarily decided to use

the simple average to develop realignment recommendations rather than the weighted average.

Exhibit 3, below, shows that for FY 1996 salary recommendations, SPB staff used the simple average to recommend a nine-step raise for the Switchboard Operator, Small Console job class, when survey results using a weighted average would have recommended a decrease of nine steps for the class. Furthermore, SPB staff used the simple average to recommend no increase for the Accountant/Auditor I job class, when the weighted average would have recommended a twenty-one step decrease.

### Exhibit 3

#### Actual and Surveyed FY 1996 Realignment Recommendations, Selected Classes

Occupational Title	SPB Recommendations (in steps)	SPB Survey Results (in steps)	(Cost)/Benefit in Wages, Per Position
Accountant/Auditor I	0	-21	(\$2,108.04)
Clerk Typist	1	5	229.56
Social Worker, Institutional	4	-6	(1,127.04)
Switchboard Operator, Small Console	9	-9	(1,064.40)
DP-Computer Operator I	3	6	229.68
Security Officer I	2	1	(62.64)
DHS-Food Stamp Cashier	1	5	229.56
Corr-Library Technician	13	13	0.00
DH-Medical Aide	12	13	62.52

SOURCE: PEER analysis of SPB realignment recommendations and salary survey data.

#### *Applicability of Results*

- *SPB has not provided an empirically defensible basis for selecting job classes to be surveyed or for realigning classes that are not surveyed.*

A surveyed job class, or "benchmark," is a group of occupations that has a large degree of common job content to other job classes and is important in determining pay settings within the occupation and to other similar occupations. Benchmarking is the process of realigning a job class based on the results collected from a similar class. PEER maintains that not only should a benchmarked class have similar job content (i.e., knowledge, skills, and abilities), but should also have quantitative proof that salaries paid to a non-surveyed occupation have a direct relationship with the salaries in the surveyed class to which it is matched.

SPB staff determine which job classes will be included directly in the survey, with approximately three hundred job classes surveyed annually. The remaining 2,166 job classes must be matched to one of the surveyed classes in order to develop realignment recommendations. Benchmarking increases the error associated with the realignment recommendations more than would a survey of all job classes. Although PEER recognizes the need to group similar occupations to decrease the workload for respondents and potentially increase the response rate, it is imperative that all job classes be appropriately matched to surveyed classes based upon job content and a direct, empirical relationship within the marketplace.

Prior to PEER's 1987 review, SPB staff matched job classes without establishing job content matches and engaged in second-generation benchmarking. Second-generation benchmarking involves surveying a job class, matching the surveyed class to a non-surveyed class, and matching the non-surveyed class to another non-surveyed class, rather than matching the second non-surveyed class directly to a surveyed class. Although SPB's benchmarking process has improved since PEER's 1987 review by eliminating second-generation benchmarking, SPB staff have continued to group some job classes to surveyed classes where there appears to be little relation to the surveyed class. For example, in the FY 1996 realignment recommendations, SPB matched the DOT-Assistant Comptroller job class to an Engineer-in-Training-DOT job class, when a better match, Comptroller I, was surveyed.

SPB's assumption that these benchmarked classes increase and decrease salary ranges simultaneously to the same extent may be invalid since there has been no analysis completed to prove or disprove this hypothesis. Furthermore, SPB's hypothesis may also be invalid for numerically consecutive job classes. For example, the difference in job content between an Accountant/Auditor I and II may or may not be worth ten percent (twenty steps) in the marketplace, as the SPB has arbitrarily defined. Additionally, the relationship between the Accountant/Auditor I class and the eighty-one job classes matched to it must be empirically defensible for realignment recommendations to provide an accurate picture of the prevailing wage in the marketplace.

#### *Maximizing Realignment Recommendations*

- *SPB provides positive realignment recommendations only (salary range increases), even when survey results show the need for negative realignment (salary range decreases).*

In order to account for changing market demands for job classes, the VCP requires both negative and positive realignments of job classes. In a 1982 report to the Southern Legislative Conference of the Council of State Governments, the then-SPB Director wrote:

*Realignment is the process by which the pay range is increased or decreased on the basis of a salary survey. It is a method of ensuring*

*that the pay range remains competitive with the prevailing wage in the relevant labor market.*

Negative and positive realignments of job classes address the basic tenet of the state's Variable Compensation Plan by ensuring the competitiveness of the state as an employer in the marketplace without overpaying or underpaying employees for their services.

SPB staff have arbitrarily decided not to provide negative realignment recommendations to decisionmakers. SPB staff view a negative realignment as tampering with an employee's wages; however, realignment only affects the job class and not the individual employee, except in the case of applying full parity to all employees in the realigned job class. In this case, SPB could elect to recommend no realignment of state employees currently in this job class; however, all new hires would be compensated at the new start step.

SPB's subjective decision increases the error associated with the realignment recommendations because the recommendations do not accurately represent the prevailing wages in the marketplace. For example, for FY 1996, SPB recommended the Accountant/Auditor I class for no realignment; however, survey results showed that the state's start step was twenty-one steps above the prevailing wage (see Exhibit 3, page 13). By not providing a negative realignment recommendation for the job class, the state is hiring Accountant/Auditor I employees 10.5 percent, or \$2,108 annually, above the average wage in the marketplace as determined by the SPB. This action is further compounded by the fact that SPB has tied eighty-one job classes to the Accountant/Auditor I class, thereby increasing costs for new hires in all eighty-one job classes.

### **Pay Comparability**

**Among state lower-skilled job classes, PEER found that the state pays slightly more on average than do other Mississippi industries.**

PEER compared state salaries to salaries paid by other Mississippi employers for lower-skilled occupations (defined by PEER as those for which Mississippi employers outside state government pay less than \$17,285 annually, or \$8.31 hourly) with wages of employees in the same occupations in the private sector industries and in federal and local governments in Mississippi. This comparison showed that state employees in lower-skilled positions generally are paid slightly more than employees in the same occupations outside of state government. (See Exhibit 4, page 17.) However, in a comparison of all occupations, Mississippi state government pays approximately eight percent less than all other employers, on average (see Appendix B, page 26). No government agency has collected the fringe benefit data needed to complete this comparison.

PEER used data collected from the Mississippi Employment Security Commission (MESC). MESC collects salary information for all industries within Mississippi using the U. S. Department of Labor's (DOL) methodology. DOL



developed the survey format and methodology over a seven-year period before conducting the first survey, and MESC has participated in the survey since 1989. The Occupational Employment Statistics (OES) survey provides for the collection of wage data by industry over a three-year period. MESC collects and publishes survey information from one-third of the state's industries annually only after DOL completes a two-phased audit.

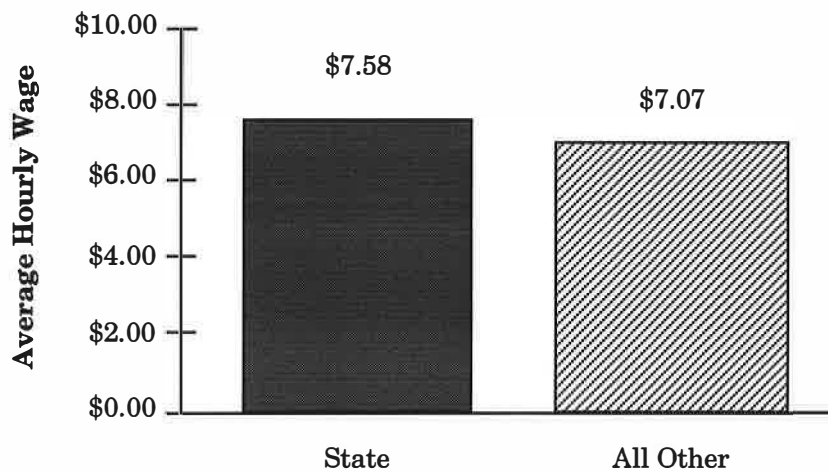
In order to make a valid comparison, PEER matched state job classes to those of OES survey classes (see Appendix C, page 27, for a description of the basis for including and excluding occupational groups from the comparison). For valid comparisons to be made across all industries within a three-year period, MESC adjusts previous data for inflation by using inflation multipliers supplied by the Department of Labor.

On average, Mississippi state government paid slightly more to its employees in the lower-skilled occupations than did employers in other industries in the state in 1994 (see Exhibit 5, page 18). The average wage of employees in lower-skilled occupations in state government was higher than the average wage paid to employees in the same occupations in forty-four other industries in the state and lower than the average wage paid to employees in twenty-two industries.

At the occupational class level, PEER noted that the classes vary significantly from the average of all other industries. For example on average among typists, the state pays \$6.80 per hour, whereas all other industries pay, on average, \$8.10 per hour (see Exhibit 6, page 19). Among data entry keyers, the state pays \$7.80 per hour, whereas all other industries pay \$7.00 per hour (see Exhibit 6, page 19). These two examples show that if the analysis remains at the summary level, the comparison between public and private sectors is not so different; however, at the occupational class level the comparison shows that among these occupations that the state is out of alignment with comparable private sector counterparts.

### Exhibit 4

#### Average Hourly Wage for Lower-Paid State Employees\* Compared to Average for Lowest Paid Employees in All Other Industries in Mississippi, 1992-1994\*\*



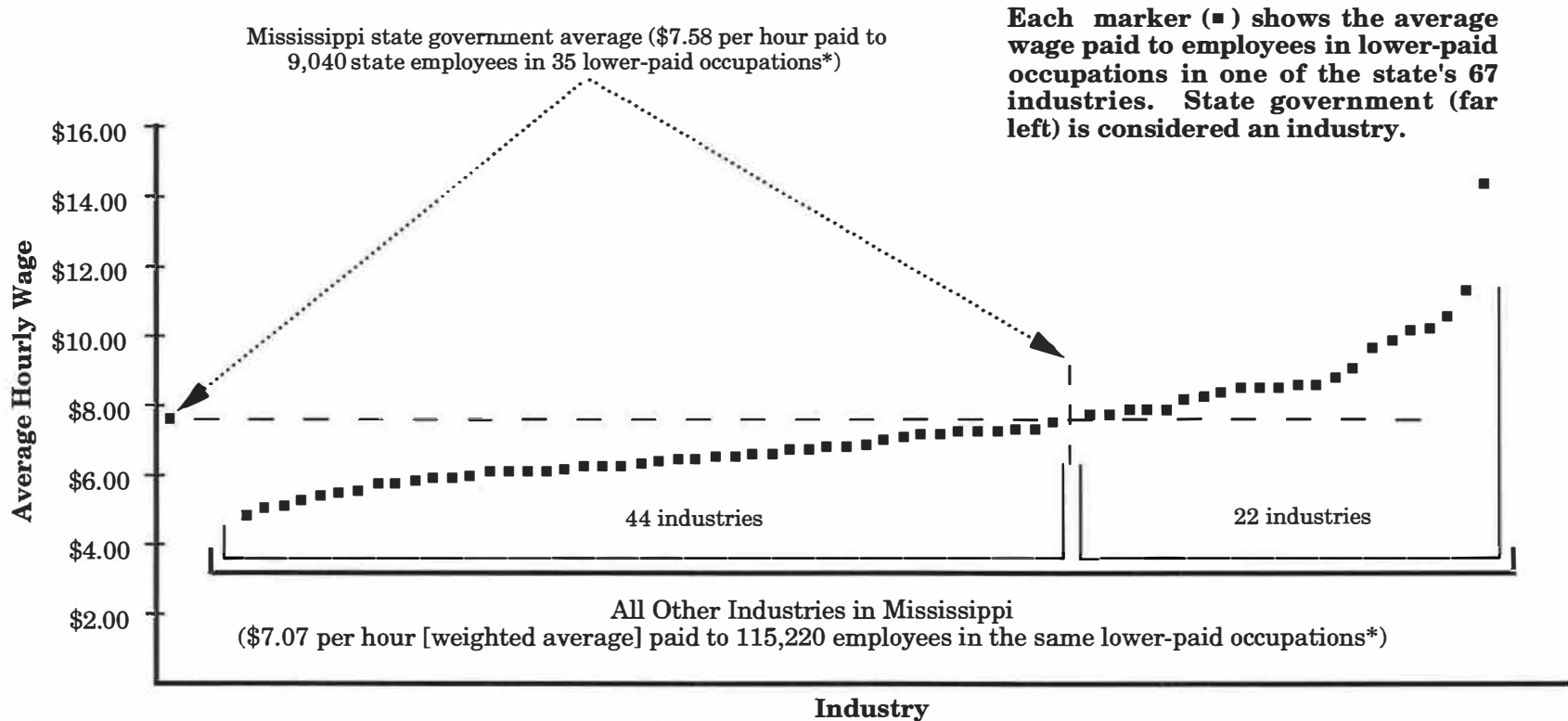
\* Lower-paid occupations are the 35 occupations (i.e., job groupings defined by the U. S. Department of Labor) for which the average salary paid by employers outside state government (private, federal and local employers in Mississippi) was \$8.31 (\$17,285 annually) or less. In 1994, one-third of Mississippi's state government employees worked in these 35 occupations.

\*\* PEER adjusted 1992 and 1993 data by applying an inflation factor developed by the U. S. Department of Labor to ensure comparability with 1994 data.

SOURCE: PEER analysis of wage data collected and compiled by the Mississippi Employment Security Commission from 1992 through 1994 and published in 1995.

## Exhibit 5

### Average Hourly Wage for Lower-Paid Occupations\*: Mississippi State Government Compared to All Other Mississippi Industries, 1992-1994\*\* (By Industry)



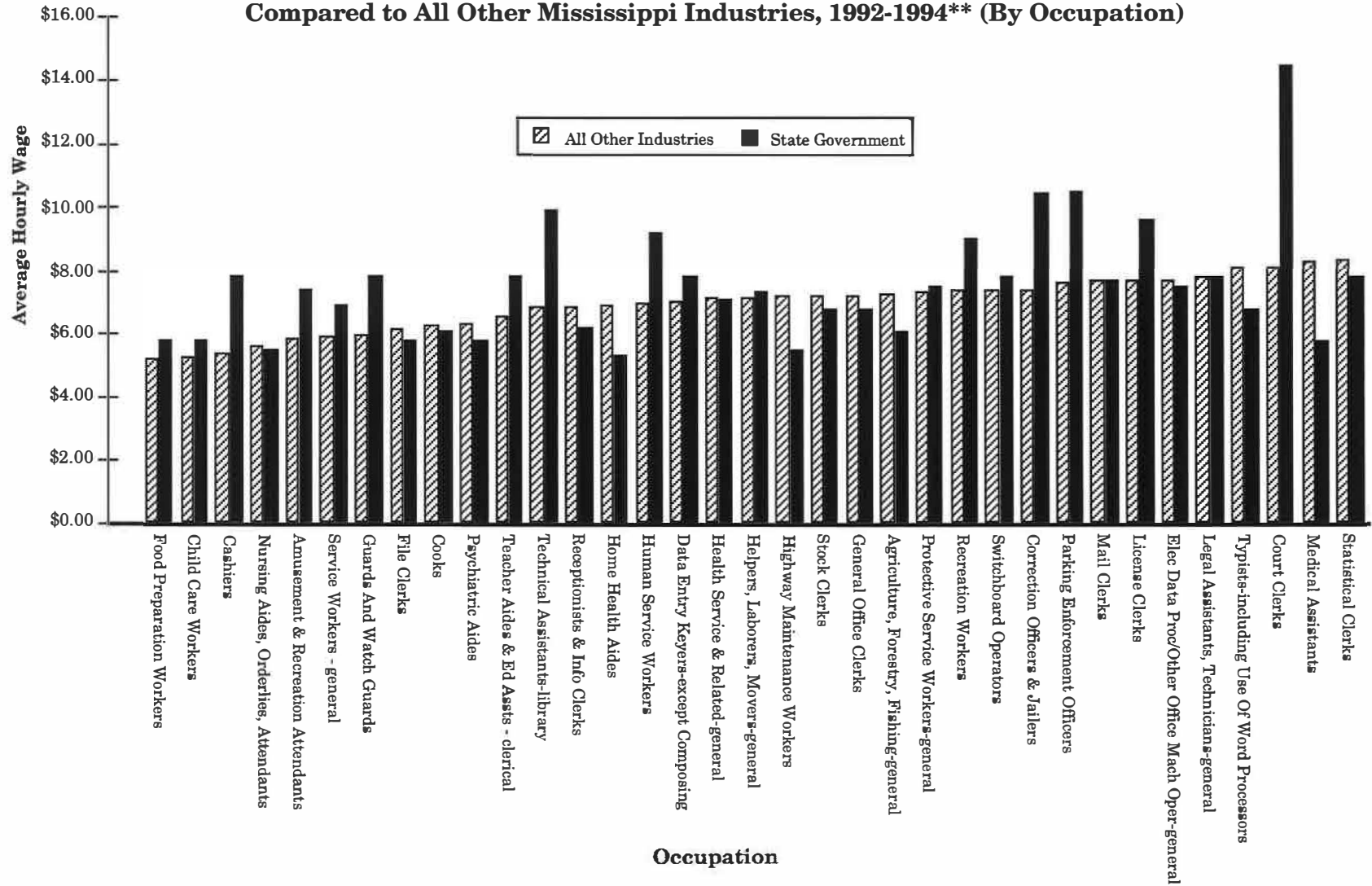
*Mississippi state government pays employees in lower-paid occupations\* a higher average salary than do employers in most other industries. The average wage of employees in lower-paid occupations in state government (\$7.58 per hour [dashed line above]) was higher than the average wage paid to employees in the same occupations in 44 other industries in the state and lower than the average wage paid to employees in 22 industries.*

\* Lower-paid occupations are the 35 occupations (i.e., job groupings defined by the U. S. Department of Labor) for which the average hourly wage paid by employers outside state government (private, federal and local employers in Mississippi) was \$8.31 (\$17,285 annually) or less. In 1994, one-third of Mississippi's state government employees worked in these 35 occupations, which are listed in Exhibit 6, page 19.

\*\* PEER adjusted 1992 and 1993 data by applying an inflation factor developed by the U. S. Department of Labor to ensure comparability with 1994 data.

Exhibit 6

Average Hourly Wage for Lower-Paid Occupations\*: Mississippi State Government Compared to All Other Mississippi Industries, 1992-1994\*\* (By Occupation)



Average state government salaries for some lower-paid occupations differ substantially from average salaries in all other industries.

\* Lower-paid occupations are the 35 occupations (i.e., job groupings defined by the U. S. Department of Labor) for which the average salary paid by employers outside state government (private, federal and local employers in Mississippi) was \$8.31 (\$17,285 annually) or less. In 1994, one-third of Mississippi's state government employees worked in these 35 occupations.

\*\* PEER adjusted 1992 and 1993 data by applying an inflation factor developed by the U. S. Department of Labor to ensure comparability with 1994 data.

SOURCE: PEER analysis of wage data collected and compiled by the Mississippi Employment Security Commission from 1992 through 1994 and published in 1995.

## *Conclusion*

Each of the weaknesses noted in this report compounds the potential for error in SPB's labor market surveys and reduces the confidence that decisionmakers should place on the results. During the last three fiscal years (FY 1994 through FY 1996), the Legislature has relied upon SPB recommendations to appropriate over \$56.7 million for realignment of state occupational classes. The lack of a valid compensation survey leaves the Joint Legislative Budget Committee and House and Senate Appropriations committees without an accurate picture of how much should be appropriated to keep salaries competitive with those paid by employers in the relevant labor market.

The State Personnel Board has acknowledged that problems exist within the administration of the Variable Compensation Plan and specifically, within the realignment component. In an attempt to identify the specific problems and solutions to correct them, SPB entered into a contract with the Stennis Institute of Government at Mississippi State University in September 1995 for a study of the VCP. The Stennis Institute has contracted to:

- determine an appropriate group of private sector entities with which to compare public sector compensation packages;
- survey private sector firms which have occupational classes that are equivalent to those in state government in order to collect compensation and relevant demographic data of employees in the surveyed firms;
- analyze through appropriate models the variance between compensation in the private and public sectors and sources that may influence the difference; and,
- examine the extent to which factors other than pay may contribute to job satisfaction.

The Stennis Institute will complete a report of its findings by December 1, 1996. Although the Stennis project will address some of the VCP's problems and alternative solutions, the scheduled completion date of the report will not allow its use in assisting SPB in developing realignment recommendations for FY 1997 and FY 1998. This study will represent the first formal evaluation of the administration and the goals of the Variable Compensation Plan.

## *Recommendations*

1. During the 1996 Regular Session, the SPB should use available information to refine its realignment recommendations for FY 1997. To arrive at these refinements, SPB should perform a detailed analysis of MESC's salary survey reports to identify job classes that are most in need of realignment and should find more valid links between job classes for which SPB surveyed salaries and job classes that were not surveyed. SPB should report revised realignment recommendations to the Legislature for use in the FY 1997 appropriation process.
2. The Legislature should consider amending MISS. CODE ANN. §25-9-147 (see proposed legislation in Appendix D, page 30) to require SPB to:
  - supplement its realignment recommendations with information on fringe benefits;
  - identify all employers composing the labor market relevant to each job class;
  - use a random procedure to select survey participants;
  - include an adequate number of employers in the sample;
  - incorporate any other research design element, such as stratification (division of the population into groups, such as employers with low, medium, and high numbers of employees, to be sampled systematically), that would improve the representativeness of the sample or the efficiency and precision of the sampling procedure;
  - analyze survey results in a way that ensures accuracy and that yields the proper statistics;
  - apply survey results only to relevant job classes; and,
  - include downward as well as upward adjustments in the realignment recommendations that SPB makes to the Legislature.
3. The State Personnel Board should provide a written report of findings regarding the Variable Compensation Plan to the Legislature by February 1, 1997. This report should address each of the following questions:
  - What method should the state use to guide its employee compensation system? Should the state continue to use the Variable Compensation Plan as the basis for determining employee compensation?
  - How should the method be applied to the state's compensation system? Should the state survey employers within the relevant labor market to

determine prevailing wages for job classes? Should the state use labor market data collected by other entities (e.g., MESOC)?

- Who should administer the employee compensation system? What parts could or should be handled by entities other than the State Personnel Board (e.g., Joint Legislative Budget Committee, Mississippi Employment Security Commission, a university research unit, or a private contractor)? What are the costs and benefits of each alternative?

In this report, SPB should specifically examine problems and remedies noted in PEER's previous reports and the Stennis Institute report.

## *Appendix A*

### **Variable Compensation Plan Glossary of Terms**

The Variable Compensation Plan (VCP) provides the framework for Mississippi's employee compensation system. The Legislature adopted the VCP in 1982, and it is now codified at MISS. CODE ANN. Section 25-9-147 (1972). The following is a discussion of selected terms and activities associated with the VCP.

**Step Chart of Salaries** refers to a salary schedule with approximately 482 different salary amounts. The lowest salary is represented by step 68 and reflects minimum wage. The hourly salary for each succeeding step is calculated by multiplying a one-half of one percent (0.5%) increase to the nearest penny.

**Salary Range** refers to the minimum (start step) and maximum (end step) salaries associated to a job class. Typically, a salary range is composed of eighty-one steps, or 40.5 percent.

**Base Salary** is the total current wages paid to the employee. Base salary differs from starting salary for a job class in that it accounts for salary increases.

**Reallocations** are changes in job classification based on a documented review of the duties performed by the employee and required by management for the position. Reallocations are concerned primarily with the job content (knowledges, skills, abilities, and duties) of the position. A position may be reallocated dependent upon changes in job content.

**Reclassification** is a change in the classification of an individual position to a higher occupational class within the same occupational class series, where the change in job title is a result of the individual obtaining certification or licensure or moving from trainee level to proficiency level. For example, an employee may move from a trainee position (Correctional Officer Trainee) to a full classification (Correctional Officer I) upon obtaining the required training, licensure, or certification. Reclassification provides a career ladder affording mobility for qualified individuals to advance to higher classified positions which are substantially similar in the type of work performed.

**Educational Benchmark** awards compensation for achievement of significant, job-related educational milestones which the employee has embarked on in conjunction with agency management approval. Typically, these include completion of a designated block of courses, award of a recognized certificate or training, or acquisition of a degree or professional license. Without special approval of the State Personnel Board, educational increases are limited to ten steps.

**Additional Compensation** is supplementary compensation which may be paid incumbents employed within designated occupational classes in an effort to



enable an agency to provide delivery of essential services or outside the confines of the standard work period, schedule, or place.

- “Call back pay” is additional compensation for work occurring after regularly scheduled hours to provide emergency services which are restricted to the care, preservation, and protection of life or property.
- “Detail to special duty pay” may be provided to individuals who are temporarily assigned to perform tasks of another position without changing position title or employee status. Without SPB approval, special duty pay is limited to a maximum of 180 days.
- “Overtime pay” is additional pay required by the Fair Labor Standards Act, 29 USCS § 201, which requires one and one-half times the regular rate of pay for all hours over forty worked per week for all covered employees.
- “Compensatory leave” is an option to overtime pay which permits an employee the opportunity to take time during regularly scheduled working hours to account for all hours worked over forty per week. An employee may accumulate a maximum of 280 hours under this option before the agency is required to provide overtime compensation.
- “Shift differential pay” is compensation paid to employees who work a shift or schedule other than the regular day shift on a continuing basis. For example, medical personnel may be granted shift differential pay for working evening shifts.
- “Standby pay” is compensation paid to individuals employed within designated occupational classes who are required by the appointing authority to remain available for work after scheduled hours to provide emergency services which are restricted to the care, preservation, and protection of life or property.

**New Hire Flexibility** allows an agency head to grant starting salaries up to twenty steps above start step. The State Personnel Director reviews all requests for approval. All requests must be accompanied by a letter of justification noting the education or experience of the applicant that exceeds the position’s minimum requirements.

**Recruitment Flexibility**, or non-appropriated realignment, exceeds the flexibility offered for new hires, and is based upon documented recruitment difficulties.

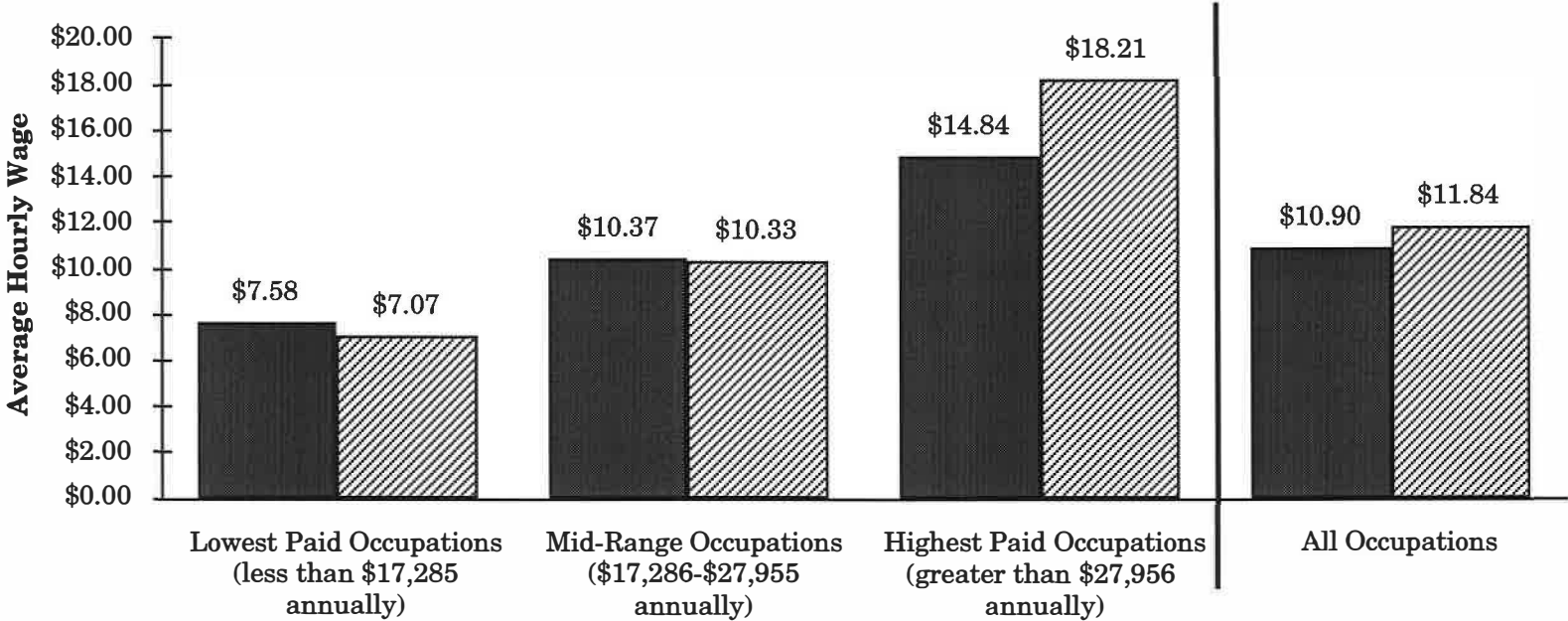
**Special Compensation Packages** refers to the fringe benefit packages and special compensation scales that are specific to an agency and particular classes therein, rather than all state agencies. For example, the Department of Public Safety provides additional life insurance coverage for Highway Patrol Officers that is not offered by other agencies. The Department of Transportation provides additional compensation packages to its engineering staff.

**Promotional Flexibility** provides full parity, up to twenty steps above the start step of the new position, for an employee who receives a promotion. Promotional flex affords current state employees the same opportunities granted under the rules to non-state employees hired into the same position. For example, if an agency could hire a non-state employee at twenty steps above start (see new hire flexibility), a current state employee would be afforded the same opportunity under promotional flexibility.

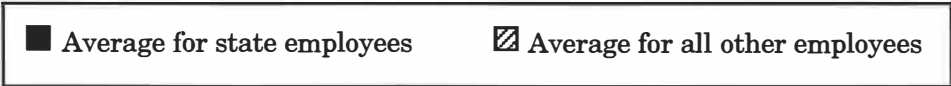
**Executive Service Compensation Plan** is intended to assist the state in attracting, retaining, and developing competent executives and senior-level managers in order that the complex programs and agencies of state government will function effectively, efficiently, and productively. Executive service is divided into two levels based upon the size and scope of the agency requesting said position.

**Appendix B**

**Average Hourly Wage for State Employees Compared to Average for Employees in All Other Industries in Mississippi, 1992-1994\***



**Category of Occupation Based on Average Wage Paid in All Other Industries**



*State government pays slightly more than other employers for workers in lower skilled occupations, on average. However, in a comparison of all occupations, state government pays approximately eight percent less than all other employers, on average.*

\* PEER adjusted 1992 and 1993 data by applying an inflation factor developed by the U. S. Department of Labor to ensure comparability with 1994 data.

SOURCE: PEER analysis of wage data collected and compiled by the Mississippi Employment Security Commission from 1992 through 1994 and published in 1995.

## *Appendix C*

### **Data PEER Used in Comparing Salaries of State Employees and Employees in All Other Industries**

PEER used data collected and reported by MESC to compare salaries in state government with salaries paid by other Mississippi employers. Ideally, PEER would have formed one group containing all employees in positions that are controlled by SPB and that have counterparts outside state government (a “State Employees” group) and another group containing all employees in Mississippi who work outside state government and whose positions have counterparts in state government (an “Employees in All Other Industries” group). Although PEER created groups that approximated these ideal groups, the format of MESC’s labor market salary reports, which were not intended or designed to yield the categories needed for this analysis, limited the extent to which PEER could form these ideal categories.

Following are descriptions of the groups PEER formed using MESC data and a summary of the impact of the actual composition of these groups on PEER’s analysis.

#### **Data Included and Excluded from “State Employees”**

PEER used MESC’s electronic file of employee salaries in the state government industry group (one of sixty-nine industries in Mississippi) as the base for the “State Employees” group used in the salary comparison. The data in MESC’s state government industry category includes salaries for 27,150 state employees. PEER modified the composition of the state government industry group to the extent possible in an effort to create a group that would include only state employees who have counterparts outside state government and who hold positions controlled by SPB.

Of the 27,150 state employees in MESC’s state government category, PEER omitted 340 employees (unemployment benefits claims takers and fish and game wardens) from its analysis because these occupations have no counterparts outside Mississippi’s state government. Of the remaining 26,810 employees comprising MESC’s state government industry, 25,236 (ninety-four percent) work in agencies that are subject to SPB position control. The remaining 1,574 employees (six percent of the remaining employees in the state government category) are elected officials and employees of the Mississippi Cooperative Extension Service (MCES) and Mississippi Agriculture and Forestry Experiment Stations (MAFES). Although the state employs these individuals, SPB does not control their positions. That is, SPB’s statutory authority to regulate the creation, hiring, and compensation associated with state positions does not extend to the agencies employing these individuals.

Because these 1,574 employees hold positions that are not subject to SPB's control, PEER would have removed these employees from the "State Employees" group if the reporting structure of MESC's data had permitted removal based on employment site. (Note that removal based on occupation was possible, permitting PEER to remove employees in occupations that had no members outside state government). However, this option was not available without asking MESC to perform time-consuming and expensive analyses. As a result, six percent of the employees reported in the "State Employees" group in Exhibits 4, 5, and 6 (pages 17, 18, and 19, respectively) and Appendix B, page 26, hold positions that are not controlled by SPB.

In addition to including certain employees in the "State Employees" group who hold positions that are not subject to SPB control, PEER could not avoid excluding certain state employees whose jobs are subject to SPB regulation from the category "State Employees." Excluded employees work for the School for the Blind and Deaf (approximately 200 employees); Ellisville State School (approximately 1,000 employees); and the two state hospitals for the mentally ill (approximately 3,000 employees). MESC included these employees in its education industry file (in the case of the School for the Blind and Deaf and Ellisville State School) and in the hospital industry file (in the case of the state hospitals). As a result, PEER unavoidably excluded approximately 4,200 employees holding positions subject to SPB control from the category "State Employees." If data had been available in a form permitting inclusion of these employees in the "State Employees" category, that category would have increased by approximately sixteen percent.

### **Data Excluded from "Employees in All Other Industries"**

Ideally, this category would have included all Mississippi employees who do not work for state government and who have occupational counterparts in state government. The organization of MESC's salary reports permitted PEER to avoid knowingly including in this category (Exhibits 4, 5, and 6 [pages 17, 18, and 19, respectively] and Appendix B, page 26) any employee who works for state government. However, in avoiding the inappropriate inclusion of state employees in the "All Other" category, PEER also had to exclude from "Employees in All Other Industries" certain individuals who work for employers other than state government. Data on the salaries of these non-state-government employees could not be extracted from a set of data that also included some state employees. As a result, the "Employees in All Other Industries" category does not include data on salaries of approximately 538,000 education and hospital industry employees who work for employers outside state government. Inclusion of these employees in the "Employees in All Other Industries" category would have increased this category by one hundred seventy-three percent.

## **Impact of Comparison Group Composition on PEER's Analysis**

As a result of the inclusions and exclusions noted above, PEER's analysis applies to all agencies subject to SPB position control, with the exception of the Department of Mental Health. That department employs approximately 4,000 of the 4,200 employees unavoidably excluded from the group of state government employees subject to SPB control. Because the analysis also omitted all employees in the two industries that employ the counterparts of the omitted state employees (private, federal, and local employees in the education and hospital industries), PEER's results apply to sixty-six of the sixty-eight industries outside state government. They do not apply to the education and hospital industries.

Although education and hospital employees within and outside state government make up the largest segment of employees in the state (sixty-two percent), their exclusion from PEER's analysis is less problematic than it would have been if a major portion of the positions under SPB control had been in the education and hospital work settings excluded from the analysis. Because most state government employees do not work in these settings, PEER's analysis yielded results that apply to approximately eighty-three percent of employees in positions controlled by SPB.

Because of the relatively short turnaround associated with a PEER report, PEER did not ask MESC to provide more information to permit the division of the education and hospital industries into the categories "State Employees" and "Employees in All Other Industries." However, MESC personnel told PEER staff that MESC was willing to work with SPB and the Legislature to provide data in the most usable form possible. Given sufficient lead time, MESC could provide data in a form that would permit a more comprehensive comparison, results of which would apply to virtually all state employees.

## **Period Covered in PEER's Comparison (1992 through 1994)**

MESC conducted labor market surveys in 1992, 1993, and 1994. Each year MESC surveyed approximately one-third of the industry groups in the state. By the end of this three-year cycle, MESC had surveyed all industry groups with employees in Mississippi. MESC included state government among the industries surveyed in 1994.

Because PEER compared MESC's 1994 state government data with data from other industries, some of which were surveyed in 1992 and 1993, PEER applied inflation factors to the 1992 and 1993 data to improve its comparability with 1994 data. The U. S. Department of Labor developed the inflation factors that MESC provided to PEER (1.0529 for 1992 and 1.0239 for 1993).

*Appendix D*

**Proposed Legislation Regarding the Variable Compensation Plan**

MISSISSIPPI LEGISLATURE

REGULAR SESSION, 1996

BY:

TO:

\_\_\_\_\_ BILL NO. \_\_\_\_\_

AN ACT TO AMEND SECTION 25-9-147, MISSISSIPPI CODE OF 1972, TO SET MINIMUM STANDARDS FOR THE MAINTENANCE OF THE VARIABLE COMPENSATION PLAN; TO REQUIRE THE STATE PERSONNEL BOARD TO PREPARE A STRATEGIC EVALUATION OF THE PLAN BY FEBRUARY 1, 1997; AND FOR RELATED PURPOSES.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MISSISSIPPI:

SECTION 1. Section 25-9-147, Mississippi Code of 1972, is amended as follows:

**§ 25-9-147.**

The State Personnel Board shall review on an annual basis the variable compensation plan adopted by the Legislature at the regular session of 1981 and subsequently implemented by the State Personnel Board. Each state department or agency subject to the variable compensation plan shall prepare an annual written report under the direction of the head of that department or agency outlining the impact which the plan has had on that department or agency during the preceding fiscal year. Such department or agency report shall be submitted to the State Personnel Board and shall become a part of the board's annual review of the variable compensation plan. After conducting its annual review of the plan and studying the report of each department or agency, the State Personnel Board shall prepare a written legislative report, to be submitted to the members of the Mississippi Legislature prior to January 1 of each year. This written report shall accurately reflect the effect of the variable compensation plan on the various departments or agencies subject to the plan. From and after July 1, 1985, the plan shall be named the "Colonel Guy Groff State Variable Compensation Plan."

Prior to January 15 of each year, the Board shall transmit its proposed job class realignment report to the appropriation

committees of both houses of the Legislature. In preparing the proposed realignments, the Board shall identify all employers in the relevant labor market for each job class for which it will collect compensation data. The Board shall use a random procedure to select survey participants, include an adequate number of employers in the sample, and incorporate any other research design element, such as stratification of samples, that in the Board's opinion will improve the representativeness of the sample or the efficiency and precision of the sampling procedure. The Board shall recommend salaries so the total compensation recommended will be equivalent to the total compensation, including fringe benefits, paid for comparable jobs in the relevant labor market. The Board shall include downward as well as upward adjustments in the realignment recommendations.

The report shall include an appendix describing the relevant labor market for each job class for which the Board collected comparative salary data, a description of the sampling design, a table of job classes for which recommendations are made by reference to a surveyed class, and a description of the statistical methods used to summarize survey responses.

Prior to February 1, 1997, the Board shall prepare a strategic evaluation of the Variable Compensation Plan. The evaluation shall include recommendations on whether the Legislature should continue to use the Plan as a method for determining compensation for employees; whether the state's compensation method should use compensation surveys or labor



market data collected by the Mississippi Employment Security Commission or some combination of data sources; and which entity the Legislature should require to collect and analyze labor market information for use in compensating state employees. The evaluation should also address whether the Board should use fewer job classes in the state classification plan and whether the job classes should be more closely integrated with the U. S. Department of Labor's schedule of occupational groups.

SECTION 2. This act shall take effect and be in force from and after July 1, 1996.

*SHORT TITLE: Set standards for Variable Compensation Plan*

## Agency Response

### BOARD MEMBERS

Tom Hall, Oxford - Chairman  
Billy R. Powell, Brandon - Vice-Chairman  
Johnny Johnson, Columbus



### BOARD MEMBERS

Jon S. Levingston, Clarksdale  
Mary S. Pyle, Gulfport

STATE PERSONNEL DIRECTOR  
J.K. Stringer, Jr.

# MISSISSIPPI STATE PERSONNEL BOARD

December 8, 1995

Mr. John Turcotte, Director  
Joint Committee on Performance Evaluation  
and Expenditure Review  
P. O. Box 1204  
Jackson, Mississippi 39215-1204

Dear Mr. Turcotte:

Thank you for the opportunity to respond to your Review of the State Personnel Board's Realignment Component of the Variable Compensation Plan.

The personnel system currently administered by the Mississippi State Personnel Board was instituted in the early 1980's in response to the technical, social, and economic conditions that existed at that time. The system, to include the Variable Compensation Plan, was a state-of-the-art, farsighted approach to public administration. The system in effect today is much the same as that system introduced fifteen years ago. The State Personnel Board recognizes that modernization is necessary in order for the state government's personnel system to efficiently operate in today's and tomorrow's information age environment. Accepting this challenge the Personnel Board has set upon a course of action to develop and implement a flexible system based upon the principle of centralized policy formulation and decentralized execution. To date four major actions have been taken:

1. In the Spring of 1993, a project was initiated to rewrite the State's job descriptions to accurately identify and publish duties and minimum qualifications associated with the various job classifications. To date, job descriptions covering more than half of the employees in the State have been revised.
2. Early in 1994 an effort was initiated to revise the Employee Performance Appraisal System. The revised system has been approved by the State Personnel Board with implementation beginning January 1996. Besides being considerably simpler to execute, the revised system provides the supervisor and employee a more realistic procedure to evaluate work performance. Good performers will continue to be recognized. Poor performers will automatically be placed on a performance improvement plan and given a reasonable period of time to improve performance or be dismissed.
3. In the Summer of 1994, a joint project was entered into by the State Personnel Board,

the Office of Finance and Administration, and Information Technology Services to develop an on-line integrated personnel and pay system using a single, relational data base.

4. In the Summer of 1995, the Stennis Institute was enlisted to conduct a review of the State's compensation system. Included will be a comprehensive study of the current salary survey methodology to include:
  - a. Establishing a conceptual link between existing overall public sector job categories and equivalent private sector occupational categories.
  - b. Determining an appropriate group of private sector industries and firms with which to compare compensation packages to public sector compensation packages.
  - c. Surveying private sector firms which have occupational categories that are equivalent to those in state government to collect data concerning wages, fringe benefits, and other compensation as well as age, education, training, experience, and job tenure of employees at those firms.
  - d. Developing an appropriate methodology and economic models to examine the extent to which there are significant differences between compensation in the private and public sectors; determining whether and the extent to which private sector pay influences public sector pay and vice versa; and determining the overall cost of maintaining equality between private and public sector compensation for comparable occupational categories.

**PEER Recommendation Number 1:**

During the 1996 Regular Session, the SPB should use available information to refine its realignment recommendations for FY 1997. To arrive at these refinements, SPB should perform detailed analysis of MESC's salary survey reports to identify job classes that are most in need of realignment and should find more valid links between job classes for which SPB surveyed salaries and job classes that were not surveyed. SPB should report revised realignment recommendations to the Legislature during the 1996 session for use in the FY 1997 appropriation process.

**SPB Response to Recommendation Number 1:**

The State Personnel Board agrees with the concept of this recommendation and will continue to refine realignment data for FY 1997 until the appropriation process is complete. Reliance upon the MESC data is questionable, however, since it only reflects the hourly wage range and the average and median hourly wage of a particular group. It does not provide information with respect to starting salaries which are necessary for realignment recommendations.

**PEER Recommendation Number 2:**

The Legislature should consider amending MISS. CODE ANN. 25-9-147 to require the SPB to:

- supplement its realignment recommendations with information on fringe benefits;
- identify all employers composing the labor market relevant to each job class;
- use a random procedure to select survey participants;
- include an adequate number of employers in the sample;
- incorporate any other research design element, such as stratification (division of the population into groups, such as employers with low, medium and high number of employees to be sampled systematically), that would improve the representativeness of the sample or the efficiency and precision of the sampling procedure;
- analyze survey results in a way that ensures accuracy and that yields the proper statistics;
- apply survey results only to relevant job classes; and,
- include downward as well as upward adjustments in the realignment recommendations that the SPB makes to the legislature.

**SPB Response to Recommendation Number 2:**

While this recommendation may have some potential benefits, there are also some potential problems. Care must be taken to ensure that statutory requirements do not unduly restrict flexibility to attract and adequately pay a competent work force. For example, should the law require the downward adjustment of pay ranges based upon average salary data (a method suggested in the PEER Report) an uneven distribution of employees toward the top of the pay range could result in the establishment of a starting salary below what is actually necessary to attract qualified applicants. The State Personnel Board recommends that such legislation not be adopted until completion of the compensation review by the Stennis Institute, and then, only after careful analysis of the legislated language.

**PEER Recommendation No. 3:**

The State Personnel Board should provide a written report of findings regarding the Variable Compensation Plan to the Legislature by February 1, 1997. This report should address each of the following questions:

What methodology should the State use to guide its employee compensation system? Should the State continue to use the Variable Compensation Plan as the basis for determining employee compensation?

How should the method be applied to the State's compensation system? Should the State survey employers within the relevant labor market to determine prevailing wages for job classes? Should the State use labor market data collected by other entities (e.g., MESC)?

Who should administer the employees compensation system? What parts could or should be handled by entities other than the State Personnel Board (e.g., Joint Legislative Budget Committee, Mississippi Employment Security Commission, a university research unit, or a private contractor)? What are the costs and benefits of each alternative?

**SPB Response to Recommendation Number 3:**

The Stennis Institute will be requested to include all of the PEER Report's suggestions and recommendations in their final compensation study report. This report will be used as the foundation for a State Personnel board report to the Legislature during the 1997 Session.

**Additional Comments:**

1. In response to PEER's question : Are the salaries of state employees in lower-skilled jobs higher than salaries paid by other employees with comparable positions?

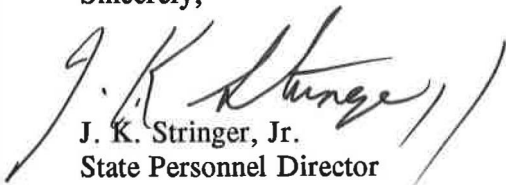
State salaries in lower-skilled jobs may be higher than comparable private sector positions due to Legislatively mandated "across the board" fixed dollar amount pay raises. Such pay raises may cause the salary of lower paid employees to rise at a faster rate than their private counterparts. For example, a minimum wage laborer working for the State making \$8,900 per year in June 1993 makes at least \$11,100 today, an increase of \$2,900 (or 32%), for doing the same job. None of the increase results from realignment; the entire increase results from "across the board" pay raises.

2. In response to PEER's concern with the relevant labor market: The House and Senate leadership have for many years directed that the State Personnel Board use the four (4) contiguous states and the Mississippi private sector as the relevant labor market for determination of annual realignment recommendations. The State Personnel Board strives to increase the amount of private sector salary survey data each year, and state agencies have been very helpful in developing both contacts in the private sector and contributing to the annual salary survey process. Because many job classifications are specific to state government, the four (4) contiguous states remain a primary source for salary survey data for the majority of the survey classes. Of interest, is that Alabama has the highest salaries for state workers of all fourteen (14) southeastern states.

In conclusion, the State Personnel Board considers the PEER Review an independent, honest, and useful contribution to the Board's continuing efforts to modernize the State's personnel system. Such an evaluation and its proper use is "good government at work".

Should you require additional information, please do not hesitate to contact me at 359-2702.

Sincerely,



J. K. Stringer, Jr.  
State Personnel Director

JKS/fm

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