HR Survey Series:

Local Government Classification and Compensation Practices

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Key Takeaways

> Most agencies have enough classifications to cover the work performed, their classification plan is easy to administer, and position descriptions reflect the work performed.

> Cities typically use 30% of classifications as benchmarks, and Districts/Authorities and Counties use 20%.

> Although classification "creep" is common, especially in larger agencies, resolving the issue itself is not as high a priority as revising position descriptions or classification specifications.

> Agency benefits are considered comprehensive, and respondents know how their benefits stack up against the current market. For agencies, market competitiveness is the most important factor in adjusting compensation systems. Between eight and ten agencies are typically surveyed.

> Only 52% of respondents indicated that employees understand how the classification system works, and 45% understand how the compensation system works.

> Although many agencies conduct reclassification studies on an as-needed basis, frequency varied: 22% of respondents conducted them at least once a year if not more frequently, 10% conducted them every two or three years, and 12% conducted them every four or more years.

> Thirty-nine percent (39%) of participants indicated that their agencies use private sector market data; 55% of Districts/Authorities were more likely to use private sector market data than Cities (35%) and Counties (32%).

> Thirty-two percent (32%) of City respondents considered career ladders a priority compared to participants in District/Authorities (18%) and Counties (7%).

> Although most agencies relied on market competitiveness, Districts/Authorities were more likely to use quantitative methodologies than other agencies. How often agencies measured the market varied widely, especially amongst City agencies.

> Ultimately, each agency must determine which practices work best within their own organization. Finding commonalities with agencies of similar structure and culture serves as a starting point, a place to compare an agency's current practices and ask questions. By making the commitment to maintain a dynamic classification and compensation system, an agency gains efficiency, a structure aligned with their organizational strategy, and practices designed to best meet the agency's needs.

CPS HR Consulting conducted a study to determine similarities and differences in public sector classification and compensation practices amongst agencies at the local government level.

Our goal was to provide a point of reference that HR practitioners could use to compare their own agency's classification and compensation practices against similar agencies.

Agencies from the following states participated: Arizona, California, Colorado, Oregon, Texas and Washington.
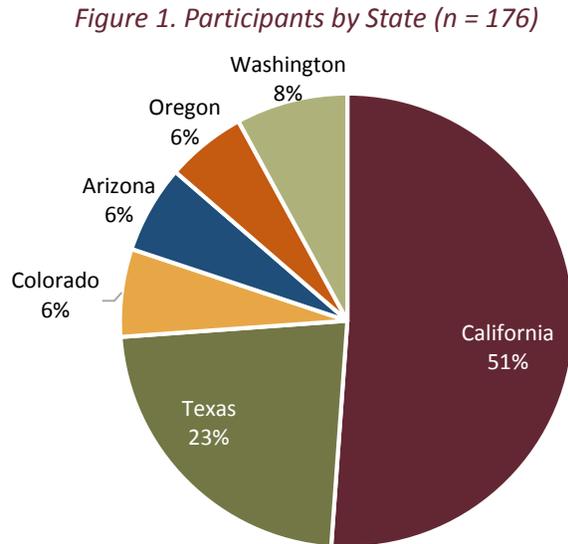
Introduction

CPS HR Consulting conducted a survey to determine similarities and differences in classification and compensation practices amongst agencies at the local government level. Our goal was to provide a point of reference that HR practitioners could use to compare their own agency's classification and compensation practices against similar agencies.

CPS HR received substantive responses from 176 participants, although not all respondents answered all questions. Of those who indicated their agency role, 82% of respondents were senior or department level managers, with 18% represented by non-management professionals (n = 160). HR managers and practitioners provided information on their agencies regarding:

Figure 1. Participants by State (n = 176)

- number of staff and positions/classifications
- satisfaction with current classification and compensation structure
- frequency of methods of classification/compensation review
- potential improvement areas

In this study, local governments included Cities, Counties and Districts/Authorities such as water, utility, school, and transportation districts. Cities were well represented by 60% of respondents; Districts/Authorities comprised 24% of responses and Counties consisted of 16% of responses.

The study was conducted with participants from a cross-section of states in the western half of the United States: Arizona, California, Colorado, Oregon, Texas and Washington. We received 51% of responses from California and 23% from Texas with the remaining states represented by less than 10% of respondents, respectively (Figure 1). Because of the lower number of responses in these states, differences in these states are called out in the study only if 70% or more responses are in consensus.

Figure 2. Number of Employees by Agency Type (n = 152)
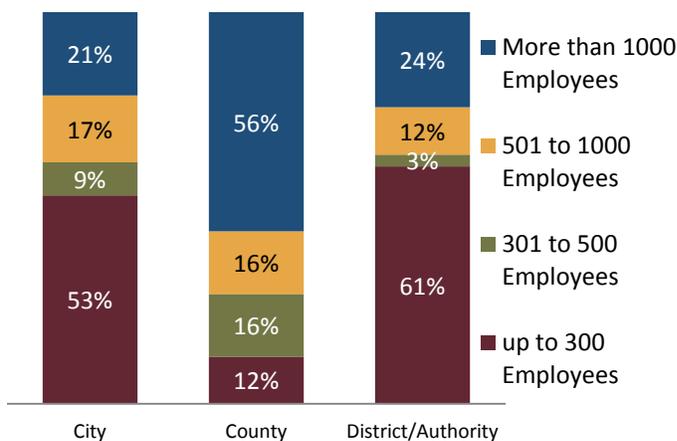
Of those who provided the information, almost half (48%) of respondents indicated their agencies had 300 or fewer employees, while 28% indicated more than 1,000 employees (n = 152). At least half of respondents from Cities and Districts/Authorities had 300 or fewer employees, whereas more than half of respondents from Counties had over 1,000 employees (Figure 2).
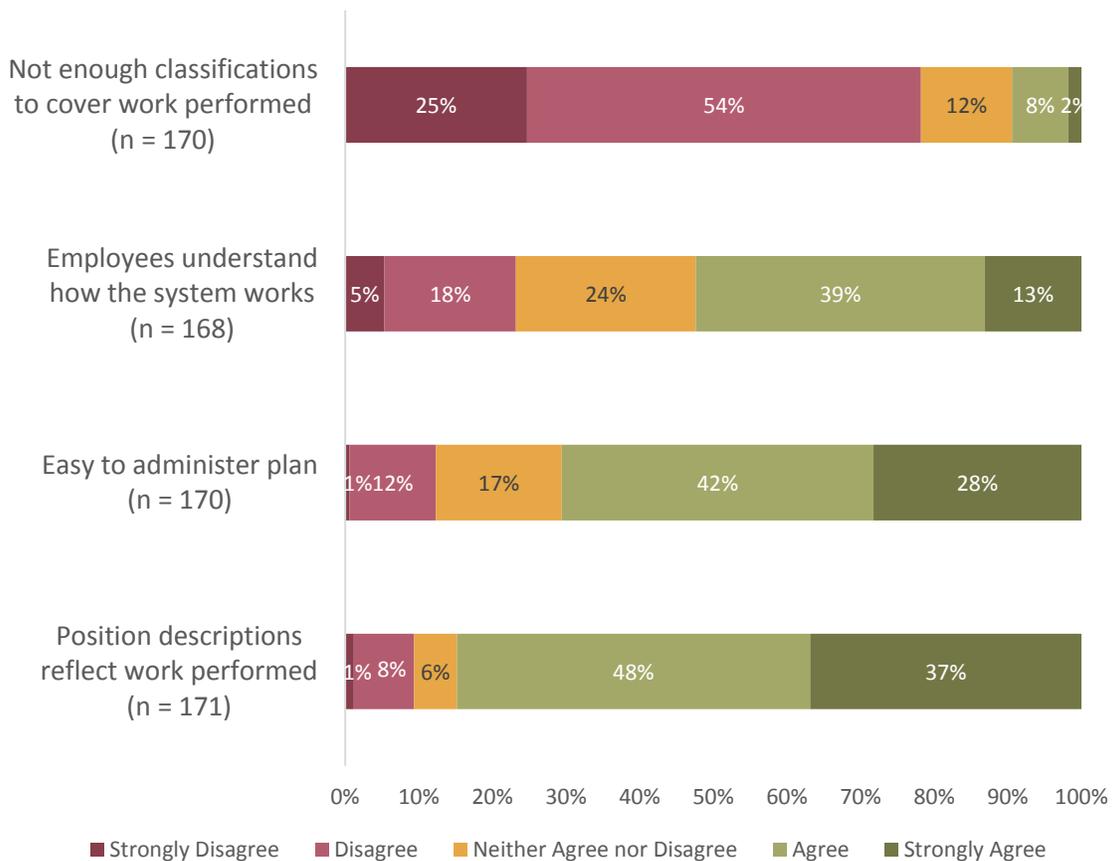
Classification

CPS HR Consulting asked participants to rate the following statements with respect to their agency's classification structure:

- Our agency does not have enough classifications to cover the work performed.
- Our employees understand how the classification system works.
- Our classification plan is easy to administer.
- Our classification position descriptions are reflective of the work performed.

Four out of five participants (79%) disagreed with the statement, "Our agency does not have enough classifications to cover the work performed" (see Figure 3). Included in this group were those who strongly disagreed, fully 25% of participants.

Half of participants (52%) indicated that employees at their agency understand how the classification system works, although 23% disagree. Seventy percent (70%) of participants felt their agency's classification plan is easy to administer, and 85% thought their agency's position descriptions are reflective of the work performed.

Figure 3. Classification Statements - Participant Agreement

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
Not enough classifications to cover work performed (n = 170)	25%	54%	12%	8%	2%
Employees understand how the system works (n = 168)	5%	18%	24%	39%	13%
Easy to administer plan (n = 170)	1%	12%	17%	42%	28%
Position descriptions reflect work performed (n = 171)	1%	8%	6%	48%	37%

Fifty-five percent (55%) of participants filled in their response when asked how frequently they conduct reclassification studies, overwhelmingly stating that their agencies conduct them on an as-needed basis (Figure 4). The remaining participants varied widely in their responses, with 15% stating that their agencies conduct studies yearly and 12% stating every four or more years.

Figure 4. Reclassification Frequency (n=164)
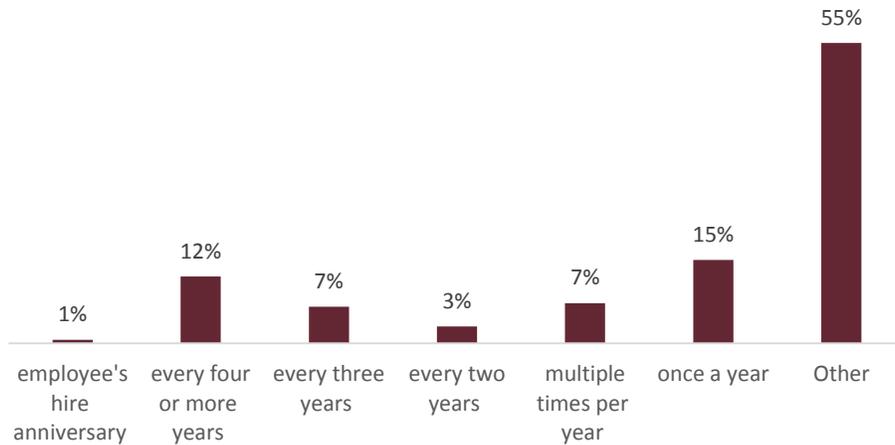
The typical number of classifications used as benchmarks varied between Cities and other local agencies. City participants indicated that their agencies use 30% of classifications, whereas other agencies typically use 20% (Figure 5).

Figure 5. Median Number of Benchmarks (%)
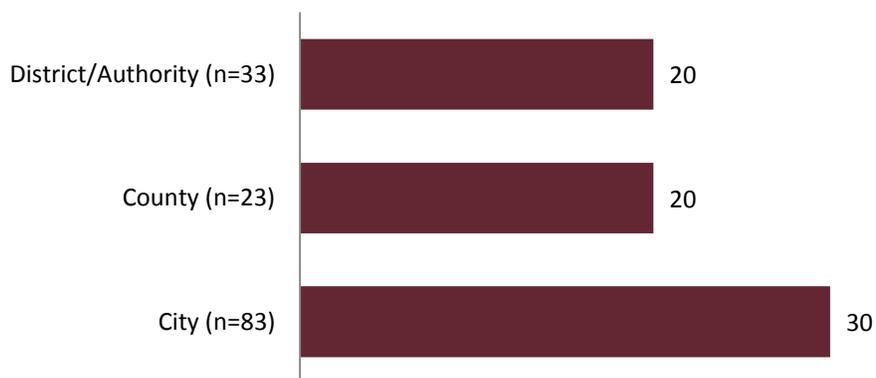
Overall, 39% of participants indicated that their agencies use private sector market data for some or all of their classifications. Over half 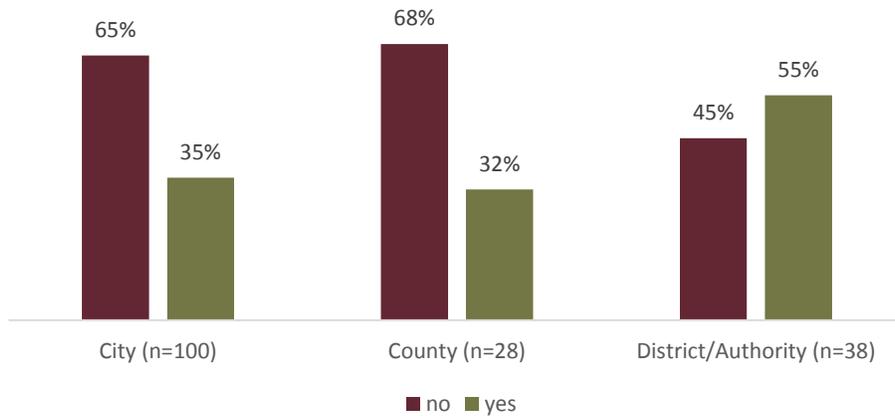(55%) of Districts/Authorities were likely to use private data compared to one-third of either Cities (35%) or Counties (32%) (Figure 6). Only 13% of Districts/Authorities and 7% of Cities used it for all classifications.

Figure 6. Use of Private Sector Market Data

Sixty-five percent (65%) of participants indicated that employees at their agency perform duties or have responsibilities outside of their current classification (i.e., over-classification or classification creep). Over-classification is more prevalent in agencies with larger staff numbers, with 75% of participants at agencies with over 500 employees indicating a problem compared to 58% of those from agencies with less than 500 employees (see Figure 7).

Figure 7. Occurrence of Over-classification
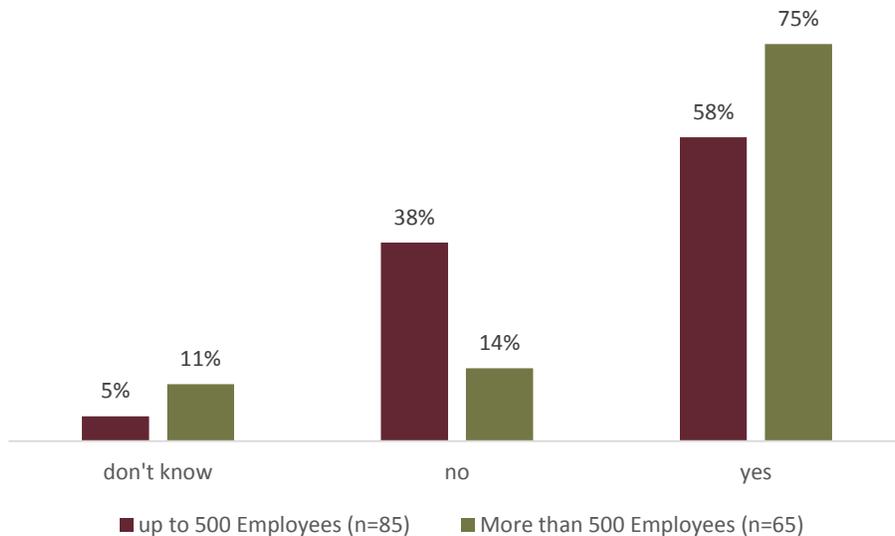
CPS HR asked participants, "If there was one thing you could change in your classification structure, what would it be?" Participants most want to see revisions to position descriptions or classification specifications at their agencies (Figure 8). Thirty-two percent (32%) of participants from Cities would like to see their agencies develop career ladders. Although participants indicated over-classification as a common occurrence, the results of this question indicate that resolving this issue is not as high a priority.

Figure 8. Desired Changes in Classification Structure
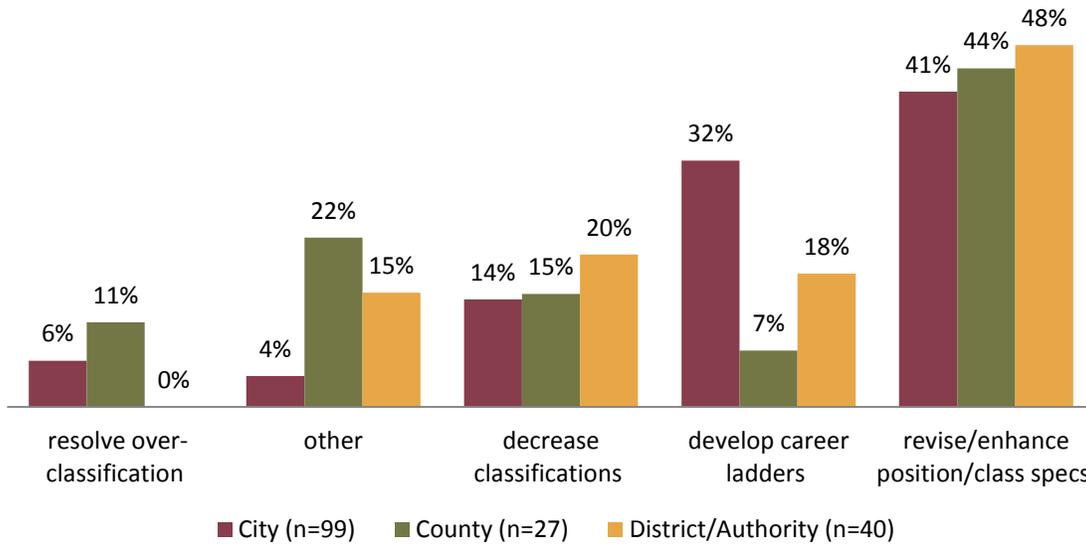
Participants from Counties (22%) and Districts/Authorities (15%) were more likely to select "Other" than those from Cities (4%). Comments included themes of:

- ▪ fairness and value recognition,
- ▪ better alignment and consistency in how levels are defined/used, and
- ▪ simplifying the system while providing greater flexibility to respond to the changing work environment.

Some participants indicated that they would not change anything while another wanted to "start from scratch."
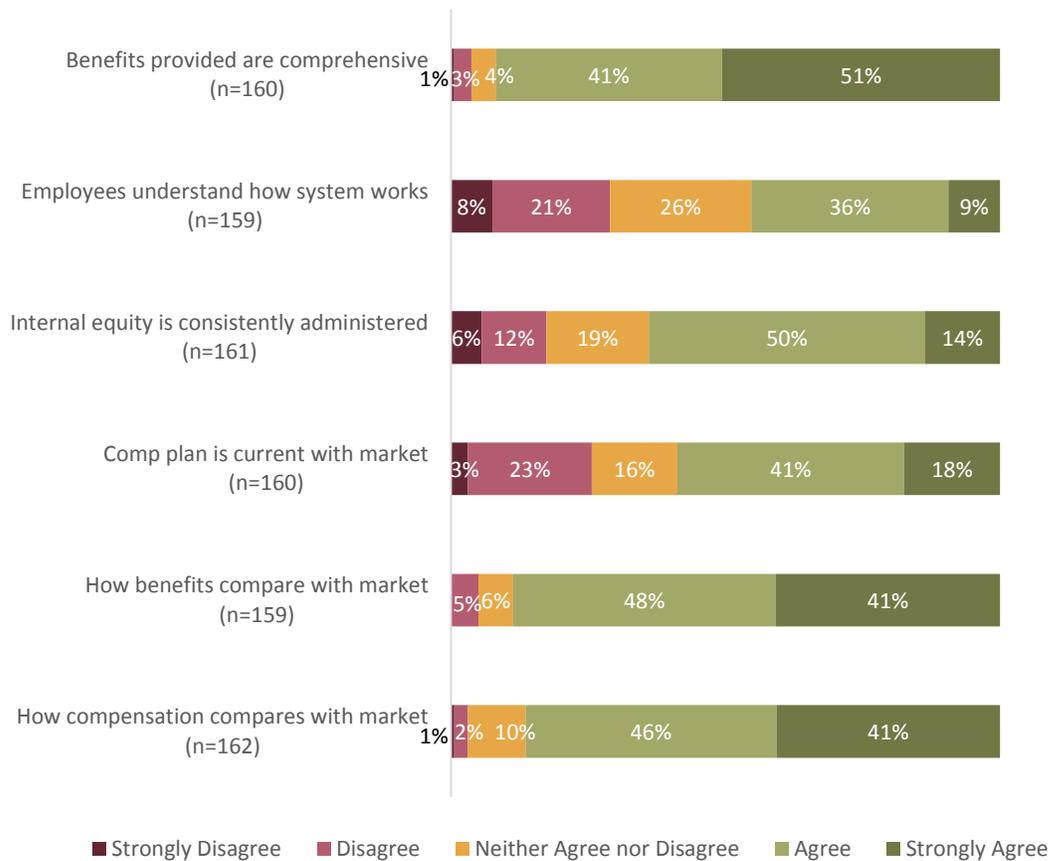
Compensation

CPS HR asked participants asked to rate the following statements with respect to their agency's compensation and benefits plan:

- Benefits provided to employees are comprehensive.
- Employees understand how the compensation system works.
- Internal equity is consistently administered.
- Our compensation plan is current with market conditions.
- We have a good sense of how our benefits compare with the market.
- We have a good sense of how our compensation compares with the market.

Ninety-two percent (92%) of participants felt that benefits are comprehensive (Figure 9). Most participants indicated that they know how their agency's compensation (86%) and benefits (89%) compare with the market, although 26% do not agree that their compensation plan is current with the market. In addition, 18% of participants disagreed that internal equity is consistently administered. Twenty-nine percent (29%) of participants indicated room for improvement on conveying to employees how the compensation system works.

Figure 9. Compensation Statements - Participant Agreement

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
Benefits provided are comprehensive (n=160)	1%	3%	4%	41%	51%
Employees understand how system works (n=159)	8%	21%	26%	36%	9%
Internal equity is consistently administered (n=161)	6%	12%	19%	50%	14%
Comp plan is current with market (n=160)	3%	23%	16%	41%	18%
How benefits compare with market (n=159)		5%	6%	48%	41%
How compensation compares with market (n=162)	1%	2%	10%	46%	41%

CPS HR asked participants what methodology they use to adjust their compensation system. Participants primarily use market competitiveness, indicated by 72% of City participants, 64% of County participants, and 61% of District/Authority participants (Figure 10). District/Authority participants were more likely to select quantitative methodologies (19%) than those from other local agencies. Hybrid methods were selected by all agency types, although County participants selected it 29% of the time.

Figure 10. Methods Used to Adjust Compensation System
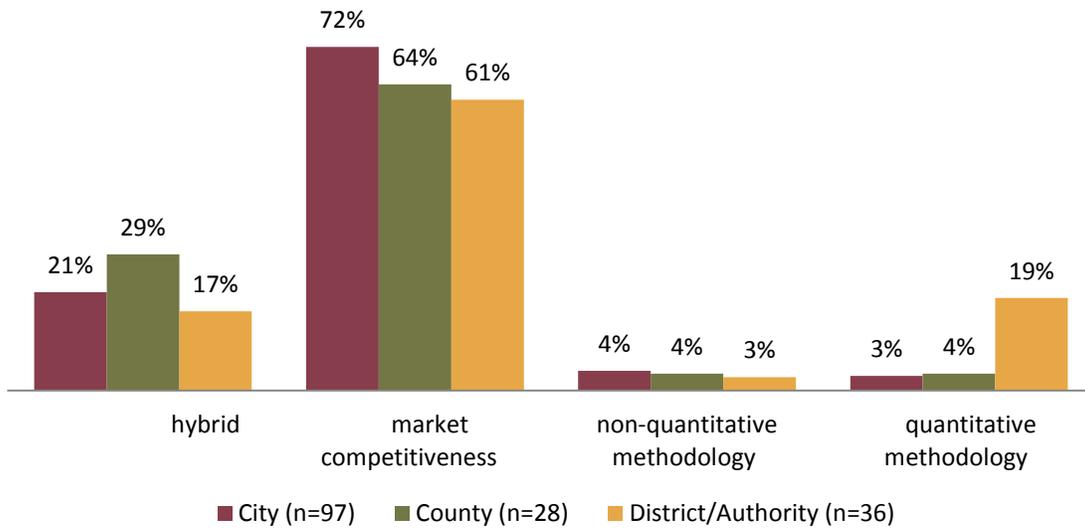

CPS HR asked participants who selected hybrid methods to specify what they are using. Their comments included methods using:

- market competitiveness and the agency's ability to pay.
- market competitiveness and internal job equity (as well as internal job equity where comparable positions are scarce).
- market competitiveness and quantitative (e.g., point factor).
- market competitiveness, quantitative, and internal job equity.
- market competitiveness and/or non-quantitative (e.g., whole-job analysis) depending on the position.
- market competitiveness, non-quantitative, and internal job equity.
- market competitiveness and Employment Cost Index (ECI) prepared by the US Bureau of Labor Statistics (BLS).
- quantitative verified by non-quantitative.
- non-quantitative verified by market factors.
- whatever method is negotiated with the union (sometimes "without regard to HR needs").

Participants indicated a wide range regarding their agency's frequency of measuring the market to determine competitiveness (see Figure 11). Participants from Counties and District/Authorities selected greater than three years most often, 43% and 42% respectively. City participants selected either yearly or greater than three years, 30% and 29% respectively, with 24% measuring every two years. Although County participants selected greater than three years most often, 29% selected yearly. Cities and Districts/Authorities typically survey ten agencies for their compensation studies, whereas Counties survey eight.

Figure 11. Frequency of Measuring Market
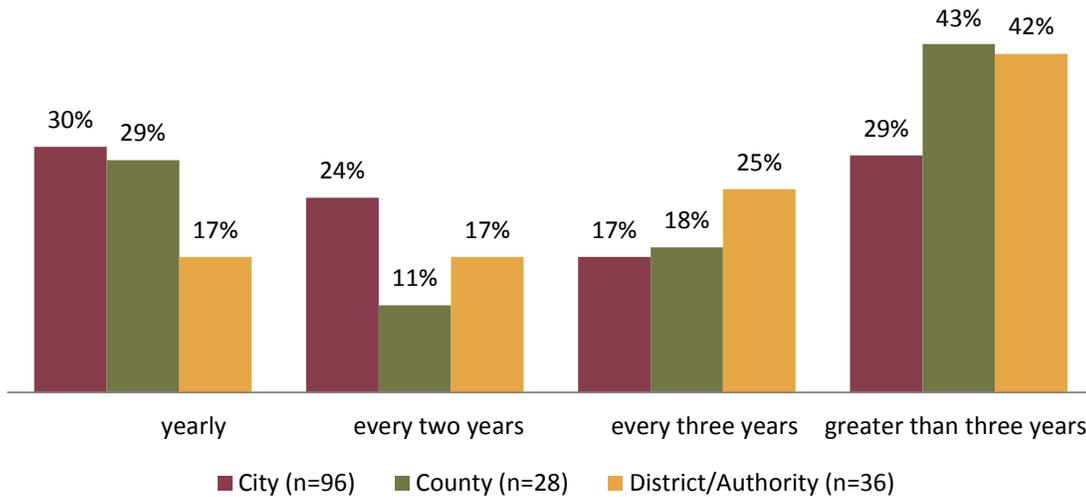
General Comments

Many participants mentioned that they are currently conducting classification and/or compensation studies or will shortly. Some mentioned the challenges they face when it comes to classification and compensation:

- Labor negotiations are not the responsibility of HR, but of the City's budgeting office. Consequently little regard is given to the problems caused in HR administration by differing numbers, salary steps or bonuses given for particular kinds of work. The reality is these decisions have become less technically based and more politically based over the last decade, which may result in great difficulty as we move forward to fill positions as a result of the gray tsunami.
- We [are] one department within the County. We have 1,973 allocations for our agency and approximately 4,700 employees for our county.
- We are a small agency with five employees. The City contracts all services. [One person serves as the HR Department.]
- My…district has a 30 - 40% range, broad-band compensation approach for business operations classifications that does not relate to market conditions, does not provide career ladders, does not define basic jobs/classifications. Eighteen months ago I was brought in to review existing systems, processes and procedures and make recommendations to all class/comp systems.
- Our organization is planning to conduct a comprehensive classification and compensation….[The] system has not been reviewed in a comprehensive manner since the year 2001. Due to the economic downturn, we did not conduct any classification and compensation studies but redeveloped job classifications as vacancies occurred. This has made it difficult to maintain equity throughout the system.

One participant commented on how their approach has been beneficial:

- Our compensation system is a formally adopted City Council policy -- it establishes our pay philosophy, defines our labor market, etc. It has been very beneficial for us to involve City Council in setting the policy and we administer it.

Finally, one participant mentioned a very important point about the data gathered in this study:

- I hope you distinguish between common practices and best practices. Huge difference. I would venture to guess there are very few "best" practices in the public sector.

Conclusion

CPS HR Consulting's goal in conducting this survey was to determine a point of reference that HR practitioners could use to compare their own agency's classification and compensation practices against similar agencies. We hoped to determine common core practices that best serve local public sector agencies.

What participants revealed was a diverse set of classification and compensation issues and practices. There were areas where most participants agreed, such as:

■ Their agency has enough classifications to cover the work performed, the classification plan is easy to administer, and position descriptions reflect the work performed.

■ Cities typically use 30% of classifications as benchmarks, and Districts and Counties typically use 20%.

■ Although classification "creep" is common, especially in larger agencies, resolving the issue itself is not as high a priority as revising or enhancing position descriptions or classification specifications.

■ Their agency's benefits are comprehensive, and participants know how their benefits stack up against the current market. Market competitiveness is the most important factor in adjusting their compensation systems. Between eight and ten agencies are typically surveyed.

There were also areas where participants demonstrated that agencies differed:

■ Only half of respondents indicated that employees understand how the classification system works, and slightly fewer on how the compensation system works.

■ Although many participants indicated conducting reclassification studies on an as-needed basis, 22% conducted them at least once a year if not more frequently, 10% conducted them every two or three years, and 12% conducted them every four or more years.

■ Less than half of participants indicated that their agencies use private sector market data; Districts/Authorities were more likely to use private sector market data than Cities and Counties.

■ Cities were more interested than other agencies in developing career ladders.

■ Although most agencies relied on market competitiveness, Districts/Authorities were more likely to use quantitative methodologies (e.g., point factor) than other agencies. How often agencies measured the market varied widely, especially City agencies.

CPS HR Consulting convened a panel of experts to discuss these results and came to agreement on a set of general recommendations, a place to start discussions within your own agency about classification and compensation systems. These guidelines should be adapted to best meet each organization's unique issues and environment.

■ Depending on an agency's structure, classification studies should be conducted on either a rolling basis or agency wide for full coverage every four to five years.
  o Classifications that evolve frequently should be reviewed every three years (e.g. IT, GIS, Engineering).
  o Classifications that typically do not change as fast should be reviewed no less than every six or seven years (e.g., Public Safety).

■ It is more important to have a structure that depicts differences between qualifications, responsibilities, and duties across levels in your classification series than it is to have a formal career ladder that outlines how to move through the organization.

- Implement a mechanism for individual classification reviews, either annually or as part of a budget process, to mitigate over- or under-classification issues.
- Consider the following when determining how often to measure the market, if frequency is not written into union agreements:
  - Large organizations should measure the market every three to five years.
  - If your organization is not market competitive due to budget constraints or other factors, make sure your internal equity is appropriately aligned.
  - Let the economy determine the frequency of measurement – there is no point in measuring if the economy is down and not moving.
- Use 30% to 50% of classifications as benchmarks. This range varies based on the number of single versus multi-level classifications.
- Survey approximately ten agencies when conducting a compensation study.
- Compensation systems should be reviewed frequently, regardless of the methodology used, as human nature and the market will have its impact. Remember that even systems that assign numeric values can deteriorate within two or three years as staff learn how to "manipulate" the system.

Looking for best practices can be an attractive mirage, the ultimate quick fix if we only follow a "best practices" recipe. Instead, each agency must determine which practices work best within their own organization. Finding commonalities with agencies of similar structure and culture serves as a starting point, a place to compare your agency's practices and ask questions such as:

- Does my current practice fit within my agency's desired strategy, mission and culture?
- How would this new practice improve/detract from our current practice?
- What value would this new practice bring to our organization?

Remember that best practice is a theoretical concept and should be adapted to the organization to best achieve your agency's goals. Maintaining a classification and compensation structure requires a systematic approach that addresses internal and external environmental influences, such as economic conditions, new regulations, and the demand for new classes among others. By making the commitment to maintain a dynamic classification and compensation system, you gain efficiency, a structure aligned with your organizational strategy, and practices designed to best meet your agency's needs.