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TO: **Joint Fiscal Committee**

FROM: **Thomas Cheney, Commissioner**

DATE: **November 1, 2016**

SUBJECT: **Classification Study Status Report**

Background

Act 58, Sec. E.100.1, 2015 Legislation Session required the Agency of Administration, Department of Human Resources (DHR) to issue a request for proposal (RFP) to:
- Conduct a diagnostic evaluation of the current classification and compensation systems;
- Summarize best practices and classification systems used by other public sector organizations; and,
- Provide recommendations for relevant alternatives to the current systems used by DHR.

The reason a study of the State's classification and compensation systems is necessary now is due to a variety of factors, including:
- The current classification and compensation system used by the State of Vermont is based on a point factor job evaluation system developed by Norman Willis and Associates, referred to as the Willis system. Vermont implemented the Willis system 30 years ago, in 1986.
- The system has not been recalibrated since 1994. Norman Willis and Associates is no longer in business; therefore, the Willis system is unsupported.
- The current salary plan for Classified employees is based on a pay grade and longevity step grid that was modified to work with the Willis classification system in 1986.
- The Department of Human Resources is inundated with requests to review the classifications of approximately 900 positions each fiscal year, as employees and management can make such requests at will.
- Each classification review has an unanticipated impact on department budgets.

Two responses to the RFP were received. The DHR entered a contract with Gallagher Benefit Services, Inc.'s Human Resources and Compensation Consulting practice.

Gallagher Benefit Services met with a variety of stakeholder groups including: VSEA and VTA representatives, representatives from the Judicial Branch, supervisors, managers, appointed officials, Joint Fiscal Office representatives, and members of DHR responsible for classification and compensation.

Classification Status Report

Act 172, Sec. 108.4, of the 2016 Legislative Session required a status report to be submitted to the Joint Fiscal Committee by November 1, 2016 and a final report to the General Assembly by January 15, 2017. Both this report and the final report focuses on three areas:
- Recommended next steps,
- Anticipated costs and resources to implement recommendations; and
- The total cost of the current classification system and the number of positions impacted by these recommendations.

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Recommended Next Steps:
In summary, Gallagher Benefit Services recommends:
- Developing a broader classification system, utilizing fewer job classes.
- Utilizing a more modern, flexible, transparent system for managing job evaluation and placement within the compensation system for the classified service, such as a decision banding system.
- Implementing a contemporary, flexible, easy to understand system for managing pay that effectively combines: recognition of competencies, experience/longevity, market parity, and excellence in performance.

The Department of Human Resources agrees with the above recommendations. We propose the following specific next steps with anticipated timeline:
- Develop a realistic estimate of the cost to purchase and implement a new classification and compensation system; including cost of staff and/or consultant resources. (January 15, 2017)
- Draft proposed legislation to update the statutory requirement for a point factor job evaluation system, to allow the State flexibility to implement a different type of classification and compensation system. (January 15, 2017)
- Create a diverse Classification and Compensation Steering Committee to provide leadership and strategic support. The steering committee will include key stakeholders; and may include representatives from VSEA and VTA; Executive Branch managers, supervisors, and employees (February 1, 2017); and Legislative and Judicial branch stakeholders.
- Working with stakeholders develop and issue a formal Request for Information for classification and compensation systems. (April 1, 2017).
- Develop a preliminary project plan for a complete update of the State's classification and compensation systems. (June 15, 2017)
- Issue an RFP for consultant(s) to serve as expert resources on classification, compensation, and performance management systems. These consultants will work with the State of Vermont to evaluate possible classification and compensation systems and assist with the potential implementation of a revised system. (August 1, 2017)

Anticipated Costs and Resources to Implement Recommendations:
The Gallagher Benefit Services findings and recommendations, include some initial cost estimates associated with a statewide classification and compensation study. Their initial estimate does not include the full scope of work and resources to complete design, development, and implementation of a new classification and compensation system. Comprehensive cost estimates cannot be completed until specific systems are selected and strategic implementation plans are established. It is important to note there will be one-time costs, recurring costs, and very likely savings associated with modernizing the State's classification and compensation systems.

Recommendations/Next Steps	One Time Cost	Recurring Cost	Future and Ongoing Savings
Evaluate and streamline class structure	x		x
Define job requirements, skills, and competencies.	x		x
Update job descriptions and job specifications	x		x
Ensure employees are properly classified under the new structure	x		x
Revise current RFR review and Classification Committee processes	x		x
Develop a total compensation philosophy	x		
Conduct total compensation market assessment	x		
Update pay structure	x		
Design and develop a performance based pay program	x		
Consultant/Contractor(s)/project staff	x		
Training	x	x	
Staff time (HR admins, classification, agency management - committees)		x	x

Technology	x	x	
Maintenance of the new class/comp system (market studies, pay plan calibration, performance management)		x	

Estimated Total Cost of the Current Classification System

Actual Classification Costs	FY2015	FY2014	FY2013	FY2012	FY2011
Employee Salary Change due to Classification	$4,107,622	$3,629,730	$5,452,843	$3,639,429	$1,997,863
Classification Staff Total Salary	$441,610	$466,349	$463,349	$390,972	$364,099
Total Actual Cost	**$4,549,232**	**$4,096,079**	**$5,916,192**	**$4,030,401**	**$2,361,962**

Additional Estimated Costs Associated with Time Spent on Classification Matters	FY2015
HR Staff (HRIS, HR Administrators and HR Managers)	$261,000
Agency/Department Staff (employees, supervisors, managers)	$125,000
Classification Committees (managers participate on nine agency/department committees, and two statewide committees)	$108,000
Total of Estimated Additional Costs	**$494,000**

FY15 Total of actual and estimated costs	**$5,043,232**

Conclusion:

The classification and compensation systems currently used by the State of Vermont are out of date, labor intensive, complex, and costly. The classification and compensation system we implement must be:

- Fair,
- Transparent,
- Easy to understand and administer,
- Predictable, and
- Sustainable.

Creating a stakeholder steering committee is an important part of our proposed next steps. Collaboration is critical. We know implementing a system based on broader more flexible job classes and an up to date pay system will require a great deal of work.

The recommendations to modernize the classification and compensation systems apply statewide and will have a positive impact on the State workforce.