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Mary Elizabeth Bailey
SECRETARY

October 8, 2024

Mr. Jason Petrie, Chairman
House Appropriations and Revenue Committee

RE: House Bill 6 Salary Compression Report

Dear Chairman Petrie:

The Personnel Cabinet received your September 26, 2024 memorandum regarding the House Bill 6 salary compression report. Please see below the Cabinet's response to each of your requests:

1. Please find attached the Request for Proposal (RFP) dated April 30, 2024.
2. Please find attached the "Compression RFP Determination and Finding" and "RFP Technical Score Sheet" documentation of the one proposal received as a response to the RFP issued on April 30, 2024.
3. Please find attached the RFP Technical Score Sheet for the RFP issued on April 30, 2024.
4. No documentation was sent to the vendor by the Personnel Cabinet or the Finance and Administration Cabinet. Rather, since no award was made, Vendor Self-Service on the Finance and Administration website indicated that the RFP was closed.
5. Please find attached the RFP dated July 17, 2024.
6. Please find attached the "Compression RFP Determination and Finding" and "RFP Technical Score Sheet" documentation of the one proposal received as a response to the RFP issued on July 17, 2024.
7. Please find attached the RFP Technical Score Sheet for the RFP issued on July 17, 2024.
8. No documentation was sent to the vendor by the Personnel Cabinet or the Finance and Administration Cabinet. Rather, since no award was made, Vendor Self-Service on the Finance and Administration website indicated that the RFP was closed.
9. Between fiscal years 2009-2021, excluding 2014-2015, state employees did not receive an annual increase. New employees were often hired at the same salary as employees that had been hired in prior years during these years, which is the primary cause of salary compression across the enterprise. The lack of annual base pay increases also led to employee wages becoming stagnant compared to rising wages of private sector workers. Between 2002 and 2022 we saw a 48% decline in state government staffing. Reduction of benefits, such as retirement and health insurance plans, and the failure to raise wages led to high rates of turnover, inexperienced staff, critical staffing shortages, and unanswered recruitment efforts. Out of dire necessity, to once again become competitive, and not only

attract but retain quality employees, state agencies utilized the compensation tools available in the classified and unclassified compensation regulations, 101 KAR 2:034 and 101 KAR 3:045. These types of personnel actions included resign to reinstate and promote and reclass up to midpoint of the pay grade. The resign to reinstate action allowed an incumbent employee to resign their position and immediately reinstate without a break in service, resulting in an increase to the incumbent employee's salary and other employee salaries meeting certain regulatory requirements (i.e. several employees, to include those on probation, brought up to the same pay level). Promotion and reclassification up to the midpoint of the pay grade allows an agency to set the salary of the employee at a rate above the entry and up the midpoint of the pay grade for retention purposes. These compensation tools have been in effect since October 5, 2018, and, in some cases, contributed to compression, though their main objective was to improve the retention of employees.

Additionally, well-intentioned salary increases provided by the General Assembly to targeted job classifications have created compression among comparable job classifications or among same job classifications in other agencies. One example is 2022 House Bill 1 which provided an increase of \$2,400 to nineteen specific jobs, such as Social Workers and Family Support jobs. While this increase was beneficial to those employees and agencies using the job classifications specified in this legislation, this increase created compression for employees in similar crucial social work jobs, such as the Kentucky Veterans Center Social Worker jobs, which were omitted from the bill. Additionally, this legislation allocated funds for a ten percent special entrance rate for specific social worker jobs only within the Cabinet for Health and Family Services, Department for Community Based Services, while again omitting this increase for the Kentucky Department of Veterans Affairs which employ agency-specific Social Worker job classifications. Another example of compression among employees in the same or similar job classification occurred as a result of the fifteen percent salary increase allocated to forensic laboratory personnel, specifically within the Kentucky State Police, by 2021 House Bill 192. Although these increases were beneficial to Kentucky State Police employees, other agencies such as the Cabinet for Health and Family Services, Department for Public Health, which also employs individuals performing critical laboratory responsibilities in some of the same job classifications, were not included in the legislation and did not receive the increase. This resulted in pay differences and salary compression.

Because of these personnel actions, the General Assembly's reinstatement of annual salary increases, and Governor Beshear's annual salary schedule adjustment, Executive Branch staffing levels increased by more than 2,800 since 2022 and has seen a turnover rate reduction from 22% to 14%.

10. As described in response number (9), although the resign and reinstate personnel action was crucial in retaining employees, the Personnel Cabinet, in December 2023, amended the classified compensation regulation, 101 KAR 2:034, to limit future utilization of resign and reinstate actions by agencies, because the General Assembly authorized annual salary increases each of the previous three years. The amendments removed an agency's ability to resign and reinstate an employee without a break in service in order to increase the employee's and other employees' salaries without regard to seniority. Another classified

compensation regulation amendment in December 2023 authorized agencies, if sufficient funds are available, to adjust employee salaries to five percent above a new appointee's salary, to ensure that a probationary employee is not paid more than an incumbent employee.

While we did amend the regulatory language pertaining to the resign to reinstate personnel action, we believe that the remaining compensation tools set forth in 101 KAR 2:034 are vital and needed to address various employment issues that arise in our merit system. At this time, the Personnel Cabinet has no other suggestions for potential compensation changes to KRS Chapter 18A or the regulations promulgated thereto. We maintain that the regulation amendments, continued annual increases by the General Assembly, and the General Assembly's avoidance of piecemeal salary increases to only certain job classifications, certain agencies, or certain divisions within agencies in the budget bill, will assist in avoiding the creation of compression going forward.

11. To partially address compression, due to fiscal years 2009-2021 when annual increases were not authorized, the Governor, in his most recent recommended budget, recommended nearly \$90 million, from all fund sources, each year to provide a variable percentage increase to state employees based upon months of service working for the Commonwealth. The proposed percentage increases were:

- 1% for 24 to 83 months of continuous service
- 3% for 84 to 119 months of continuous service
- 5% for 120 to 155 months of continuous service
- 7% for 156 or more months of continuous service.

All chapter 18A classified employees would have been eligible to receive the increase. This increase excluded most of the 18A unclassified positions, unclassified employees who have an annual salary of \$100,000 or more, and high-level positions within state agencies that do not participate in the 18A personnel system. This tiered increase would have reduced the compression that existed between salaries of employees, as salaries of more senior personnel would receive a tiered percentage increase based upon their months of service (i.e. more senior employees would receive a higher percentage increase in salary than junior employees).

Please feel free to contact me if you or any other member of the Committee has any questions.

Sincerely,



Mary Elizabeth Bailey
Secretary
Personnel Cabinet