



TOPIC: Biennial Nonexempt Market Salary Survey Report – Nonexempt Staff Employees Salary Structure

COMMITTEE: Finance

DATE OF COMMITTEE MEETING: March 17, 2011

SUMMARY: Pursuant to Board Policy VII-9.11, a market study of Nonexempt salaries within the framework of the USM salary structure was recently conducted. A comprehensive review of the Nonexempt Pay Program—principles, salary structure, markets, and policies management was conducted. All market data to increase the structure were from fall 2010 survey data. Appropriate resources and time were committed to this examination.

Key points:

- The USM is committed to survey the market on a biennial basis.
- A guiding principle according to Board Policy: "...maintain the Midpoint of Salary Ranges...equal to the current average salary paid for comparable job classes within the appropriate job market."
- The structure is established to meet the market at the mid point of the pay ranges, a standing principle of the Nonexempt Pay Program. Depending on the MOU language within agreements, it may not be necessary to negotiate any changes with the unions.

ALTERNATIVE(S): Based on the results of the biennial survey, an increase to the structure could be recommended to bring the structure up to market, as illustrated in the attached report. This adjustment carries a fiscal impact exceeding \$3.3 million.

Another option is to amend the Nonexempt Structure to reflect a 3% adjustment. With full implementation, all employees falling below the new minimum would be brought up to the minimum of pay range. Institutions could be granted the flexibility to undertake a full (or modified) implementation of the proposed salary structure change, or remain with the current structure.

Lastly, the current Nonexempt Structure could remain in place at this time. The previous modification to the Nonexempt Salary Structure occurred in July 2009. The next review will take place in the fall of 2012 for proposed implementation effective July 2013. If the State provides a COLA for FY 2013, the minimum of the state structure will increase accordingly and the USM's minimum, if necessary, will have to be increased as well.

FISCAL IMPACT: This item is presented for information and discussion purposes.

CHANCELLOR'S RECOMMENDATION: This item is presented for information and discussion purposes. We plan to present the item for consideration and action at the Board's meeting on April 15, 2011.

COMMITTEE RECOMMENDATION:

DATE:

BOARD ACTION:

DATE:

SUBMITTED BY: Joseph F. Vivona (301) 445-1923



UNIVERSITY SYSTEM OF MARYLAND

A public system of higher education

Finance Committee–BOR March 17, 2011

University System of Maryland

Biennial Nonexempt Market Salary Survey

Review and Report – Action Item

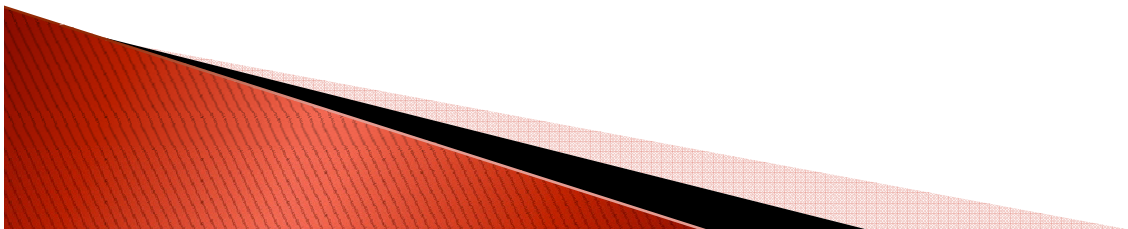
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I. Overview

The University System of Maryland (USM) is committed to conduct a Market Survey of the Nonexempt Salary Structure every 2 years. The Compensation and Classification Committee (CCC) of the Systemwide Human Resources Committee (SHRC) is responsible for conducting the survey and making a recommendation for structure adjustments.

- ▶ The objective of the survey is to analyze market competitive pay for Nonexempt jobs and utilize the data in the adjustment of the salary structure for the USM.



II. Guiding Principles

The Compensation and Classification Committee (CCC) of the SHRC followed guiding principles established in the Nonexempt Pay Program, outlined below:

- As directed by the USM Board of Regents, the guiding principle for the Nonexempt Pay Program is to use market data from the Baltimore Corridor for a Systemwide Nonexempt Salary Structure despite differences in respective Institution's employment markets.
- Maintain a true market-based system (i.e., targeting pay range midpoints to market midpoints).
- The structure will be designed with the expectation that it will be in effect for 2 years and is based on a pay philosophy that is founded on midpoints approximating competitive market average salaries at the market 50th percentile.
- The USM's intention is to follow a "lead/lag" philosophy for the Nonexempt salary structure whereby the structure should lead the market when it is implemented (July 1, 2011), match the market at the middle of the cycle (July 1, 2012), and lag the market at the end of the cycle (June 30, 2013).
- Maintain job classifications' minimum pay at or above State of Maryland Nonexempt pay rates for comparable job classifications.
- When needed during the Biennial salary structure adjustment, update the structure minimum to reflect the July 1 Federal recognized Living Wage for State of Maryland employers (not contractors). During difficult budget years, use at least the minimum pay of the lowest pay grade of the State's Employee Salary Structure. (State adjusts its structure by the COLA approved by the Maryland General Assembly).

III. History

- ▶ Two years ago (2008), the CCC conducted a full benchmarking study for the USM Nonexempt Salary Structure review with the assistance of Keating Advisors, LLC. That comprehensive study involved benchmarking 66 positions across the Pay Ranges and Job Families. The outcome of that review was 2 proposals for the FY09-FY11 USM Nonexempt Salary Structure as follows:
- ▶ A Market-Based Salary Structure - created by incorporating the minimum pay of the lowest pay grade of the State's Employee Salary Structure and existing USM Pay Range spreads, with the regression pay line from the market analysis. The Market-Based structure required a cost of \$968,363 Systemwide to implement and was eliminated due to State budget constraints.
- ▶ A Cost-Adjusted Salary Structure - also took into account the State's minimum and existing USM Pay Range spreads. Rather than determining midpoints using the regression pay line, the structure was anchored at the midpoint of Pay Range 2 and the structure was built using the existing midpoint progressions. This option, at a cost of \$226,846 Systemwide was also eliminated due to State budget constraints.

History (Cont'd)

- ▶ Thus, an alternate USM Nonexempt salary structure adjustment was implemented for 2009-2011. It only increased the minimums of Pay Ranges 1-3 in order to adjust to the State's salary structure minimum of \$21,188; maximums were not changed. Pay Ranges 4-16 were not changed.
- ▶ The lead/lag approach was followed until 2005, when the structure began declining against the market.
- ▶ An overall structure adjustment has not been done during the last 2 reviews (July 2007 and July 2009) due to severe State budget constraints. The result is that the **current USM Nonexempt Salary Structure is 9% below market. The cost to reach the USM's goal of having a lead/lag salary structure is increasing rapidly.**

IV. Key Considerations

- ▶ Under USM-BOR policy, the Nonexempt salary structure is to be market-based
- ▶ USM follows a “lead-lag” philosophy whereby the structure should lead the market when it is implemented, match the market at the middle of the cycle, and lag the market at the end of the cycle.
 - The “lead-lag” policy has become difficult to apply due to State budget constraints. The structure has not matched the market for more than 4 years.
 - Currently, the structure lags the market by **9%**.
- ▶ Economy has impacted levels of employment but not wages. Market data continues to move upward in spite of the economy.
- ▶ Continued failure to adjust structure results in:
 - Policy non-compliance
 - Widening the gap between our structure and market
 - Resulting in an increasing cost to meet the market
- ▶ Structure itself is deteriorating. The market structure proposed in 2008 but not implemented intended to correct some of the damage from prior adjustments.
 - Cannot move only the lower Pay Ranges and not the rest of the structure.
 - Range widths are already considerably larger than market-standard.
 - As the structure erodes, the entire Nonexempt pay plan is jeopardized.

V. Future Considerations

- ▶ As the federal government and private sector organizations increase hiring, USM institutions will face stiffer competition to attract and retain employees.
 - Shift from an employer's market back toward an employee's market
 - Top performing employees will seek other employment
- ▶ USM risks becoming a training ground for other organizations.
- ▶ Turnover has been increasing in the last quarter as other employers begin hiring again.
 - Retirement has increased considerably as well.
- ▶ At the USM there has been a huge increase in reclassification requests with salary increases as supervisors attempt to retain employees.
- ▶ Maryland unemployment in 2010 declined from 8.2% in January to 7.3% in August.

VI. Current USM Nonexempt Salary Structure – 7/1/09–6/30/11

| Range | Salary Range | | |
|-------|--------------|-------------|----------|
| | Min | Mid | Max |
| 1 | \$21,188 | \$22,886 | \$25,000 |
| 2 | \$21,280 | \$24,701 | \$28,538 |
| 3 | \$21,385 | \$26,211.50 | \$31,454 |
| 4 | \$21,702 | \$27,459.50 | \$33,217 |
| 5 | \$23,058 | \$29,733 | \$36,408 |
| 6 | \$25,079 | \$32,339 | \$39,599 |
| 7 | \$26,931 | \$34,949.50 | \$42,968 |
| 8 | \$28,939 | \$37,555.50 | \$46,172 |
| 9 | \$30,305 | \$40,178.50 | \$50,052 |
| 10 | \$32,271 | \$42,785.50 | \$53,300 |
| 11 | \$34,238 | \$45,393 | \$56,548 |
| 12 | \$36,204 | \$48,000 | \$59,796 |
| 13 | \$38,171 | \$50,607 | \$63,043 |
| 14 | \$40,137 | \$53,214 | \$66,291 |
| 15 | \$42,104 | \$55,821.50 | \$69,539 |
| 16 | \$44,070 | \$58,428.50 | \$72,787 |

VII. Proposed Option 1 – Market-Based Structure

- ▶ The Market-Based Structure was built upon the 2008 benchmark salary survey data and aged 3% to match the 2011 market levels at the midpoint.
 - Allows USM to catch up to the current market but still would not “lead” the market at the date of implementation.
 - Meets the USM policy commitment to a market-based structure
 - Failure to implement this structure results in widening the gap and increased future catch-up costs
- ▶ As in prior years, the Market-Based Structure may be cost-prohibitive due to continued State budget constraints.

Option 1 – Market Based Structure

| | Salary Range | | |
|-------|--------------|----------|----------|
| Range | Min | Mid | Max |
| 1 | \$21,824 | \$24,508 | \$26,780 |
| 2 | \$22,268 | \$26,353 | \$30,438 |
| 3 | \$23,163 | \$28,954 | \$34,744 |
| 4 | \$24,928 | \$31,554 | \$38,181 |
| 5 | \$26,470 | \$34,155 | \$41,840 |
| 6 | \$28,486 | \$36,756 | \$45,026 |
| 7 | \$30,304 | \$39,356 | \$48,408 |
| 8 | \$32,307 | \$41,957 | \$51,607 |
| 9 | \$33,641 | \$44,558 | \$55,474 |
| 10 | \$35,605 | \$47,158 | \$58,712 |
| 11 | \$37,568 | \$49,759 | \$61,950 |
| 12 | \$39,532 | \$52,360 | \$65,188 |
| 13 | \$41,495 | \$54,960 | \$68,426 |
| 14 | \$43,459 | \$57,561 | \$71,663 |
| 15 | \$45,422 | \$60,162 | \$74,901 |
| 16 | \$47,386 | \$62,762 | \$78,139 |

Option 1 Costing –The estimated combined total cost to bring employees up to minimum of Pay Range per USM–BOR Policy is \$3,366,535.

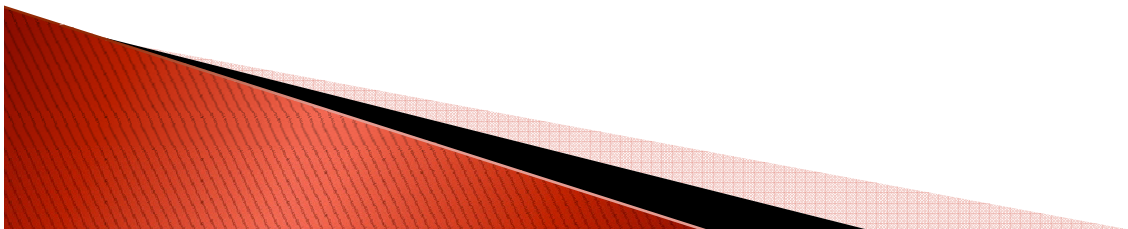
(\$2,021,683 Cost for Regular and Contingent II ; \$1,344,852* for Contingent I*)

| Institutions | Regular | | Contingent II | | Total # of EES below min | Total Cost for Regular and Contingent II | Contingent I Cost * | Combined Total |
|--------------|-------------|--------------------|---------------|------------------|--------------------------|--|---------------------|--------------------|
| BSU | 3 | \$2,140 | 1 | \$3,457 | 4 | \$5,597 | \$515 | \$6,112 |
| CSU | 21 | \$44,982 | 9 | \$22,557 | 30 | \$67,539 | ?? | \$67,539 |
| FSU | 100 | \$160,101 | 0 | \$0 | 100 | \$160,101 | 0 | \$160,101 |
| SU | 88 | \$108,015 | 3 | \$2,950 | 91 | \$110,965 | \$400,462 | \$511,427 |
| TU | 121 | \$159,147 | 48 | \$67,778 | 169 | \$226,925 | \$33,263 | \$260,188 |
| UB | 37 | \$53,877 | 13 | \$30,512 | 50 | \$84,389 | 0 | \$84,389 |
| UMB | 144 | \$177,039 | 24 | \$38,903 | 168 | \$215,942 | \$131,004 | \$346,946 |
| UMBC | 67 | \$87,964 | 4 | \$8,483 | 71 | \$96,447 | \$58,631 | \$155,078 |
| UMCES | 5 | \$4808 | 0 | 0 | 5 | \$4808 | 0 | \$4,808 |
| UMCP | 427 | \$480,685 | 127 | \$224,604 | 554 | \$705,289 | \$413,224 | \$1,118,513 |
| UMES | 58 | \$107,299 | 33 | \$56,282 | 91 | \$163,581 | \$307,753 | \$471,334 |
| UMUC | 39 | \$56,301 | 51 | \$123,799 | 90 | \$180,100 | 0 | \$180,100 |
| USMO | 0 | \$0 | 0 | \$0 | 0 | \$0 | 0 | \$0 |
| TOTAL | 1110 | \$1,442,358 | 313 | \$579,325 | 1423 | \$2,021,683 | \$1,344,852* | \$3,366,535 |

***Note:** Contingent I costs are approximate and change constantly due to irregularity and inconsistency of employees' work hours.

Option 2 – Apply 3% Market Increase to Current Structure

- ▶ This option applies an overall 3% market increase to the current USM Nonexempt Salary Structure
 - Acknowledges that the market has continued to move in the down economy and moves the structure closer to matching the market
 - This overall structure adjustment is preferable to adjusting only the lower end of the structure, preventing further deterioration of the structure
 - Structure still has considerable expense, and does little to mitigate a large “catch-up” cost in the future



Option 2 – Apply 3% Market Increase to Current Structure

| Range | Salary Range | | |
|-------|--------------|----------|----------|
| | Min | Mid | Max |
| 1 | \$21,824 | \$23,573 | \$25,750 |
| 2 | \$21,918 | \$25,442 | \$29,394 |
| 3 | \$22,027 | \$26,998 | \$32,398 |
| 4 | \$22,353 | \$28,284 | \$34,214 |
| 5 | \$23,750 | \$30,625 | \$37,500 |
| 6 | \$25,831 | \$33,309 | \$40,787 |
| 7 | \$27,739 | \$35,999 | \$44,257 |
| 8 | \$29,807 | \$38,683 | \$47,557 |
| 9 | \$31,214 | \$41,384 | \$51,554 |
| 10 | \$33,239 | \$44,070 | \$54,899 |
| 11 | \$35,265 | \$46,755 | \$58,244 |
| 12 | \$37,290 | \$49,440 | \$61,590 |
| 13 | \$39,316 | \$52,125 | \$64,934 |
| 14 | \$41,341 | \$54,810 | \$68,280 |
| 15 | \$43,367 | \$57,497 | \$71,625 |
| 16 | \$45,392 | \$60,182 | \$74,971 |

Option 2 Costing = The estimated combined total cost to bring employees up to minimum of Pay Range per USM–BOR Policy is \$719,282.

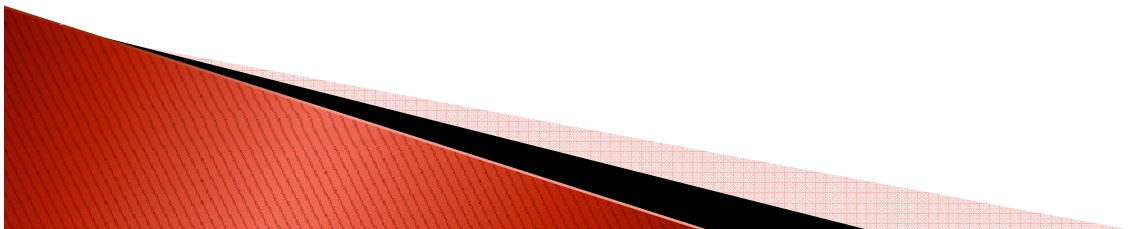
(\$277,660 Cost for Regular and Contingent II; \$441,622* Cost for Contingent I*)

| Institutions | Regular | | Contingent II | | Total # of EES below min | Total Cost for Regular and Contingent II | Contingent I Cost * | Combined Total |
|--------------|------------|------------------|---------------|------------------|--------------------------|--|---------------------|------------------|
| BSU | 0 | \$0 | 1 | \$957 | 1 | \$957 | 0 | \$957 |
| CSU | 10 | \$8,822 | 4 | \$7,978 | 14 | \$16,800 | ?? | \$16,800 |
| FSU | 37 | \$17,070 | 0 | \$0 | 37 | \$17,070 | 0 | \$17,070 |
| SU | 23 | \$5,300 | 0 | \$0 | 23 | \$5,300 | \$127,999 | \$133,299 |
| TU | 57 | \$21,872 | 24 | \$19,437 | 81 | \$41,309 | \$5,976 | \$47,285 |
| UB | 17 | \$8,680 | 11 | \$6,264 | 28 | \$14,944 | 0 | \$14,944 |
| UMB | 74 | \$22,848 | 12 | \$8,378 | 86 | \$31,226 | \$4,466 | \$35,692 |
| UMBC | 15 | \$5,239 | 3 | \$3,012 | 18 | \$8,251 | \$4,336 | \$12,587 |
| UMCES | 0 | 0 | 0 | 0 | 0 | 0 | 0 | \$0 |
| UMCP | 96 | \$45,485 | 56 | \$30,848 | 152 | \$76,333 | \$187,181 | \$263,514 |
| UMES | 29 | \$19,116 | 31 | \$19,565 | 60 | \$38,681 | \$111,664 | \$150,345 |
| UMUC | 9 | \$5,262 | 29 | \$21,527 | 38 | \$26,789 | 0 | \$26,789 |
| USMO | 0 | \$0 | 0 | \$0 | 0 | \$0 | 0 | \$0 |
| TOTAL | 367 | \$159,694 | 171 | \$117,966 | 538 | \$277,660 | \$441,622* | \$719,282 |

***Note:** Contingent I costs are approximate and change constantly due to irregularity and inconsistency of employees' work hours.

VIII. Additional Considerations

- ▶ Structure will have to be adjusted if the State provides COLA since State adjusts its structure strictly by the COLA approved by the General Assembly
- ▶ No need to push up maximums; provides unrealistic pay expectation that goes beyond “Job Worth”; creates further compression with Exempt Salary Structure
- ▶ Range widths – to reduce some of the erosion, range widths need to be narrowed which will cost even more in future years



IX. Recommendations

- ▶ **OPTION 1- Market-Based Structure** is preferred because it follows the guiding principles of the Nonexempt Pay Program by matching midpoints to current market salary data, **but at this time** the large Systemwide cost of \$3,366,535 is prohibitive due to the current ongoing budget constraints.
- ▶ Thus, **OPTION 2** is recommended as an alternative – **Apply 3% Market Increase to Current Structure** because
 - it moves the structure toward market and
 - an overall structure adjustment is preferable to only moving the lower Pay Ranges.
 - However, it is still costly and a large gap still remains between the structure and market. Due to budget constraints, the cost of \$719,282 may make it difficult to implement.
- ▶ HR has completed the survey as tasked and has provided market findings, data and options. Mindful of current budget constraints, the **members of the Chancellor's Council will need to consider if any one of these options is feasible under current economic conditions of the USM or keep the current USM Nonexempt Salary Structure in place for two more years: 7/1/2011 to 6/30/2013.**
- ▶ It is **necessary to keep in mind though** that if the State provides a COLA for FY'13 (July 2012), the minimum of the State Structure will increase by that same amount and the USM's minimum will have to be increased too, to match the State's minimum.
- ▶ Concerns and data presented in this report need to be kept in mind for adjustments in future years.