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Arizona State Employee Pay Summary

An overview of the 2010 Arizona State Employee Pay and Economic Impacts Study

In a world of increasing responsibilities for state employees and growing turnover due to retirement, competitive wages and compensation are imperative since they reduce voluntary turnover, increase morale, and attract better workers. The State of Arizona competes with the private market for employees but also competes with local governments, the federal government, and other states. This competition occurs upon many levels of wages and compensation, including employee workload, adjustments for location, and the minimization of the costs of turnover. Currently, the wages of state employees in Arizona are behind private wages, in-state federal and local government agencies, and neighboring state government wages. Including benefits, Arizona catches up in the private market and with Colorado, but remains far behind other state governments and other Arizona government agencies. The Arizona government has been unable to implement a consistent plan to address this problem and benefit state employees.

In choosing to work for the Arizona state government, workers face a high opportunity cost. In other words, state workers give up more stable and lucrative jobs elsewhere to work for the state. State workers are underpaid in comparison to other state government staff and federal government employees (see Figure 1).

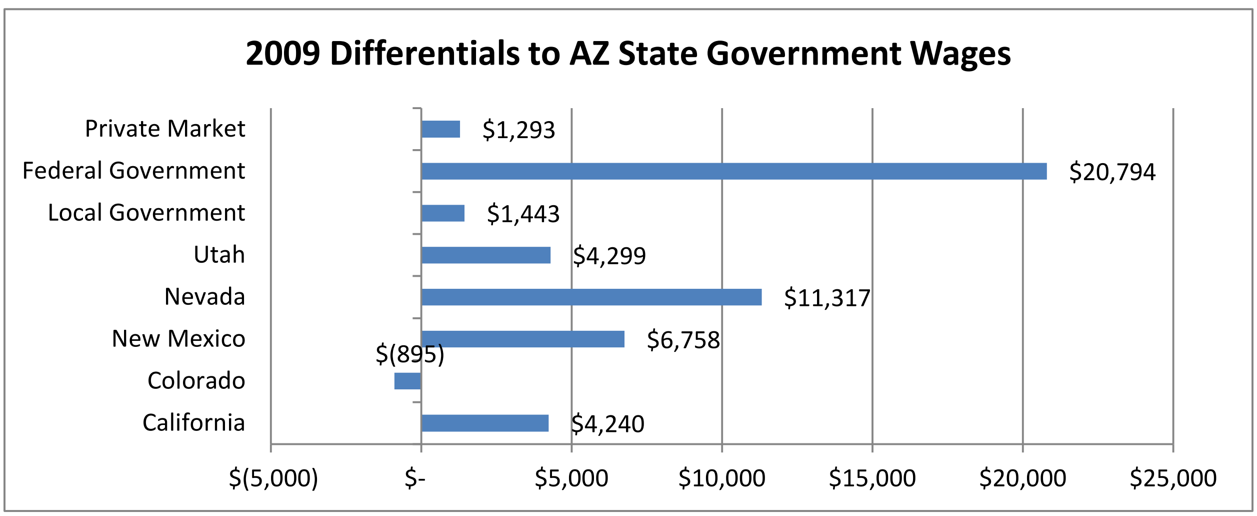

Figure 1: Wage Differential Summary (Location Adjusted Where Applicable)[1]

Figure 1 shows the wage difference between an average Arizona state employee and average employees in other labor markets using conservative BEA data. Other data sources show a much larger gap. Please see the full report for a more complete analysis.

[1] A positive wage differential signifies that Arizona workers are underpaid in comparison.

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Depending on the source, 2009 Arizona state employee wages are 3.0 to 13.6 percent below private wages. This means that in 2009 the typical state employee brought home $1,293 to $5,713[2] less before taxes and deductions than the typical private employee in Arizona. State employees do receive 34.3 percent higher benefits than private employees, worth $4,553, which reduces the compensation differential to between -$3,260 and $1,161. This figure is most relevant to jobs which transition easily into the private market and minimally relevant to jobs that are very specialized in the public sector. Also, it is important to consider that many younger, entry-level employees care more about wages than benefits[3] while benefits are more useful as a retention device for established employees.[4]

One reason people go into the public sector is stability, but private market wages are far more consistent than state government wages, which have at several points swung wildly since 1979, losing as much as eight percent in one year (see Figure 2). These wage and compensation declines are not especially predictable; looking at historic salary increases compared to the fiscal position of the state government, it appears that the government only boosts wages significantly when passing budgets with unusually large expenditures. Wage increases actually decline relative to the average in periods when the government experiences an unexpected surplus, suggesting that the government spends the surplus and more on other priorities. This unpredictability has a negative impact on employee morale, since unlike at private corporations, salary changes are often debated publicly and can be treated as undeserved by the general public.

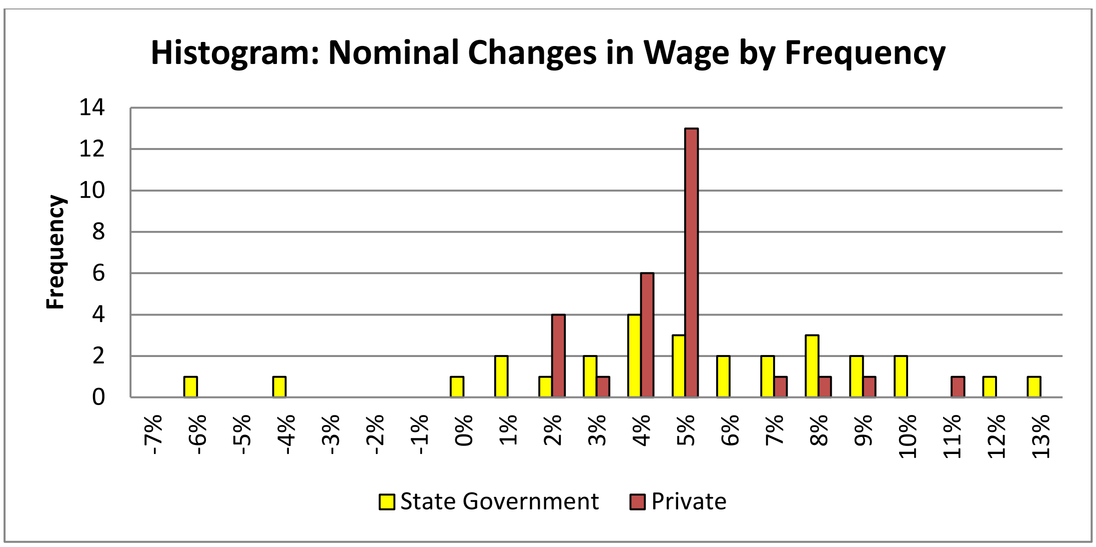

Figure 2: Nominal Pay Changes in Wage by Frequency since 1979

Figure 2 shows the frequency of nominal wage changes within the Arizona private market and state government. The frequency counts the wage changes by percentage size for 1979 to 2009. A clustering of the frequency of percent changes is less volatile than a wide spread.

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[2] ACS Data

[3] Specifically, many of the benefits offered by the state such as health care and pension are less attractive to younger workers, who are generally healthier and more focused on present wages than wages in retirement.

[4] http://www.econ.jku.at/members/WinterEbmer/files/Teaching/personel/Chapter14-15.pdf; see final slides

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Even within Arizona, the federal government compensates its employees far more than the Arizona state government, paying 50 percent higher wages (a differential of $20,794) and 74 percent higher compensation (a differential of $40,874). This means that without moving from Arizona, the average state government employee could get a 50 percent gross pay increase by working for the federal government instead. State government workers also earn an average of $1,376 less than local government workers in Arizona, a comparatively small amount but still potentially significant.

Among Arizona's neighbors, Arizona ranks second to last for state government pay after adjusting for the cost of living. Adding in benefits makes the differential significantly larger (see Table 1). After another adjustment for workload, even Colorado outperforms Arizona. Arizona ranks 49th out of 50 states in payroll dollars citizen and 46th in employees per 10,000 citizens, two metrics of state government employee workload (see Figure 3). In other words, Arizona employees are getting paid less to do more work compared to other states.

Table 1: 2009 Location Adjusted State Government Wage and Compensation Differentials

	California	Colorado	New Mexico	Nevada	Utah
Wage Differential	$ 4,240	$ (895)	$ 6,758	$ 11,317	$ 4,299
Compensation Differential	$ 1,320	$ (6,328)	$ 11,734	$ 13,576	$ 12,495

Table 1 shows how much more an Arizona state government employee could make by working for the state government of a different state. It is important to note that this table does not adjust for workload but does adjust for the cost of living in different states.

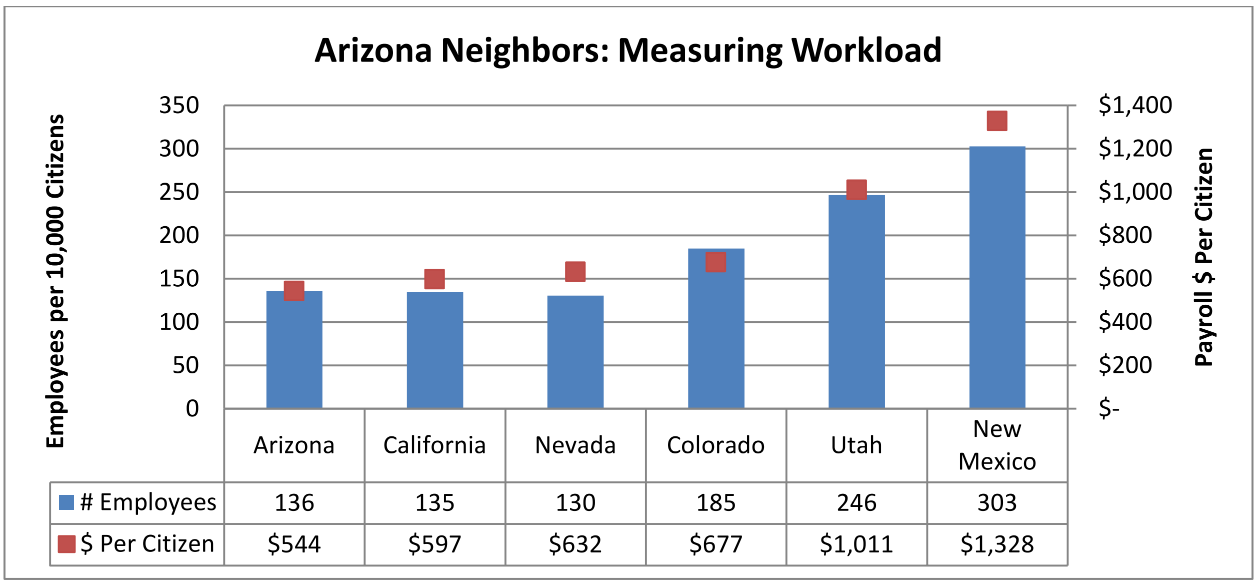

Figure 3: Arizona and Neighbors 2009 Workload (Location Adjusted)

Figure 3 shows the workload of Arizona state government employees relative to the neighboring states. The workload is measured by the number of employees per 10,000 citizens and the pay for the workload is payroll dollars per citizen. For both metrics, higher amounts are more favorable.

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Employee turnover costs approximately $3,843 per employee, far more than the private wage differential in Arizona and a significant portion of the differential with other states. Statistical analysis shows that the compensation differential relative to neighboring states is the most important factor in determining turnover, followed by the differential with the private market and the differential with the federal government. The workload-adjusted pay differential is also statistically significant in determining turnover. As a result, the most important measures of employee pay as they relate to reducing turnover are how much more an employee can make by moving to another state, how much more an employee can make by switching to the private market, and how much an employee makes compared to the work they do. While the impact of these factors has decreased slightly over the last few years due to economic conditions, the best employees may not wait for Arizona to adjust its compensation after the economy rebounds before moving to better jobs.

Based on this data, Arizona needs to establish and adhere to a plan for wage increases in good times and bad. By budgeting for salary increases as a necessity rather than a luxury, Arizona can both reduce the wage and compensation differentials and increase employee morale. In the short term Arizona must remember that despite the immediate cost of employee wage increases, turnover also has a substantial financial impact. By acting in good faith and rescinding some of the hard measures taken during the financial crisis, the state may save itself money and productivity in the long run. The ultimate goal should be to move Arizona wages and compensation in line with neighboring states after adjusting for location. A secondary goal should be using future windfalls to increase hiring and reduce the workload of Arizona employees to within 5 percent of the national average. This recessionary period offers a unique opportunity to improve turnover rates permanently as even dissatisfied employees will be waiting to leave until the financial crisis is over. By thinking long-term and implementing plans to close the wage differentials and decrease workloads beyond 2011, Arizona can come out ahead after the current fiscal crisis.