



PERSPECTIVE

The Compensation Wars

How the Public Sector Is Trying to Compete

BY KATHERINE BARRETT AND RICHARD GREENE



Common wisdom has it that people aren't attracted to jobs in the public sector for the pay—but compensation appears to be a fundamental problem in hanging onto personnel. According to a 2022 MissionSquare Research Institute survey,¹ 51 percent of human resource professionals in local and state government said exit surveys revealed that uncompetitive compensation was among employees' top three reasons for leaving. This beat out the second most common answer—retirement—by 15 points.

As a result, many local governments are trying to keep up with the private

sector. "There's more of an understanding that a raise every five years isn't going to cut it," says Leslie Scott, executive director of the National Association of State Personnel Executives.

Joshua Franzel, managing director of MissionSquare Research Institute, added: "Governments are both reevaluating their pay scales and implementing cost-of-living increases. That hadn't occurred in some cases in a decade."

But even these efforts are complicated by the fact that corporate America—which is also facing an employee shortage—is taking similar steps.

"I've never seen something like this upward spiral in my entire career," says Amanda Fischer, human resources director for the City of Grandview, Missouri. With a population of just over 26,000, Grandview competes with multiple other governments and private-sector businesses in the Kansas City metro area. While comparing 2021 and 2022 police officer salary surveys, her office discovered the average annual salary for an officer in the Kansas City metro area had jumped 11 percent in just one year, from \$44,245 to \$49,598.

"Governments are trying to, at least, keep up on the wage side, but often they can't," Franzel noted.

Greater attention to compensation issues

One of the clearest indications of the current increased focus on compensation is the market studies that are proliferating in state and local governments throughout the country. "I would say just about all states have done some kind of market study within the past two years, either one that's recently been completed or one that's in the process," Scott said.

These studies often focus on individual job groups where governments recognize they have a special hiring problem, but one pay study often follows another. As Fischer said, "We're trying to knock them out one at a time."

Cara Woodson Welch, director of the Public Sector HR Association (PSHRA), also sees more compensation and market studies, and an increasing number of local governments looking at the feasibility of instituting some form of performance pay or of making an even more dramatic change in the structure of pay systems.

Actions to deal with hard-to-fill positions

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City of Lehi, Utah, one of the fastest-growing cities in the United States (with a population that jumped from 47,400 in 2010 to about 80,000 currently). Along with other cities in Utah's Wasatch Front, Lehi is part of an area dubbed the "Silicon Slopes" for its ability to attract high-tech companies.

Like many other communities, Lehi had traditionally used pay bands and pay grades to bundle many job functions with other job categories that were judged to have similar levels of knowledge, job complexity, and work environment. But the pay calculations that resulted were far too low to make Lehi sufficiently competitive for many positions.

In an effort to solve the problem, Lehi Human Resources Director David Kitchen opted to move away from pay grades, changing to market-based pay ranges unique to every Lehi job. That system, as described by Mike Swallow, president of private-sector consulting firm Personnel Systems and Services, includes a numeric point system to help ensure equity, while also being highly responsive to market forces. About 50 cities, counties, special districts, and other public-sector entities in the western part of the United States have also transformed their pay systems using this approach. Examples in the State of Utah dominate, but this has also been tried by government entities in the States of Colorado, Idaho, Kansas, Missouri, New Mexico, and Wyoming.

Kitchen is happy with the change, as it allows Lehi to quickly adjust compensation for individual positions to market conditions. But he points out that there are also some negatives, including the time and additional analysis this effort takes, as well as some hard feelings among employees whose salary progress may be slower because of a lack of competitive market pressure.

The experimental foray into hiring bonuses

Hiring bonuses have also been used by an increasing number of governments recently, particularly for fields in which applicants have been in short supply and staff shortages are prevalent. The 2022 MissionSquare survey showed that 19 percent of state and local governments had used hiring bonuses for specific positions, while just 6 percent had instituted a more general hiring bonus. Its surveys prior to 2022 had focused on broad or targeted pay increases, not bonuses, but both salary increases and hiring bonuses will be part of the 2023 survey.

According to its 2022 data, hiring bonuses were more common in local than in state government, potentially due to widely acknowledged problems in hiring police and the emergency medical technicians and paramedics who work for fire departments.

But because much use of bonuses is a relatively new phenomenon, there's some question about whether they will be effective in the long run. "It will take some time to know if it's working or not," Scott said. "We're not seeing any research yet. I think there's going to be a look back at all the recruitment bonuses and retention bonuses that have been given fairly freely to recruit and keep employees."

Kim Bloomenrader, an HR generalist in the Pennington County, South Dakota, Sheriff's Office is skeptical, based on her own experience. At the end of 2020, the difficulty in hiring correctional officers led the sheriff's office to try a \$4,000 hiring bonus, which was in effect until the end of 2021. As is typical, this was paid out in increments—\$1,000 on being hired, then a similar amount at 6 months, 12 months, and 18 months.

But, she says, "I didn't really see an uptick in quality applicants making it through our process. I would say it wasn't very effective."

The Sheriff's Office also had to contend with the reaction of current employees—correctional workers in both the Pennington County Jail and the Western South Dakota Juvenile Service Center—who were upset by the attention to new workers rather than the ones who had "stuck it out with us through the

pandemic," Bloomenrader said. The hiring bonus was discontinued in 2022.

Meanwhile, Bloomenrader's office began to offer double overtime pay, which seemed to be an effective approach for employees who were routinely working extra hours to keep the jail and service center properly staffed. "We felt that would reward employees who were working extra hard," she says.

A focus on total compensation

Human resource officials often talk about the importance of total compensation, not just the dollars and cents that can be deposited into bank accounts. Looking at total compensation tells a more complete story, as governments often have the edge when it comes to a variety of benefits, "Employers know they may not be able to keep up with the wage piece," Franzel said, "so they're optimizing benefits and trying to communicate their value."

There is a renewed focus on the benefits that can be brought into governments' hiring and retention toolkit, which include tuition reimbursement programs, subsidized childcare, and expansions of paid family leave. Other softer benefits they are working on include schedule flexibility, options for hybrid work, and increased sensitivity to work-life balance.

In Pennington County, for example, Bloomenrader talks about plans to create an "outdoor oasis" in the land that's available outside of the jail, with grill facilities and playground equipment that would enable correctional employees to take extended breaks and invite their spouses and children for lunch or dinner.

"One of the things I've learned over the years is that it's not all about money," she says. "A lot of people in today's world want a work-life balance. It's very important to them that they have time away from work with their families." ■

¹ Gerald Young, Survey Findings: State and Local Workforce 2022, Mission Square Research Institute, June 2022.

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