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**REBUTTAL TESTIMONY OF FRANK JOHNSON
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
ON BEHALF OF
SOUTHERN STATES UTILITIES, INC.
DOCKET NO. 950495-WS**

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FPSC-RECORDS/REPORTING

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Frank Johnson and my business address is
3 2100 RiverEdge Parkway, Atlanta, Georgia 30328.

4 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

5 A. My employer is Hewitt Associates, LLC. I am a
6 principal in the firm and responsible for the Direct
7 Pay Practice in the Southeastern Region. My
8 primary responsibilities are to work with clients on
9 compensation issues and develop our practice in the
10 region.

11 Q. PLEASE DESCRIBE THE NATURE OF THE BUSINESS IN WHICH
12 HEWITT ASSOCIATES IS ENGAGED.

13 A. Hewitt Associates is a global human resource
14 consulting firm. Our primary activities are to
15 assist our clients in improving their business
16 results through people. Specific areas of focus
17 include all forms of employee compensation, employee
18 benefits, and a broad range of human resource
19 consulting activities, including comprehensive
20 compensation and benefits analyses.

21 Hewitt Associates has 62 offices world-wide
22 and employs approximately 5,000 associates.

23 Q. COULD YOU NAME SOME OF THE MAJOR NATIONAL AND
24 FLORIDA FIRMS FOR WHICH HEWITT ASSOCIATES HAS
25 PERFORMED COMPENSATION AND BENEFITS ANALYSES?

1 A. Hewitt Associates performs compensation and benefits
2 work for a broad cross-section of the Fortune 500.
3 These would include organizations such as
4 AlliedSignal Inc., Amoco Corporation, The Clorox
5 Company, Delta Air Lines, Inc., Eastman Kodak
6 Company, First Union Corporation, General Electric
7 Company, General Motors Corporation, GTE, Levi
8 Strauss & Company, Motorola Inc., Nike Inc., RJR
9 Nabisco Inc., Sears Roebuck, Shell Oil Company, and
10 Whirlpool Corporation.

11 Hewitt Associates also has worked with a
12 number of major Florida-based organizations
13 including American Automobile Organization,
14 AvMed-SanteFe, Barnett Banks, Blue Cross Blue Shield
15 of Florida, Cordis Corporation, Brevard County
16 School Board, Burger King Corporation, Darden
17 Restaurants Inc., Eckerd Corporation, Florida
18 Progress Corporation, Florida Steel Corporation,
19 Independent Life & Accident Ins. Co., Interim
20 Services Inc., Office Depot Inc., Orlando Regional
21 Healthcare System, Scotty's Inc., Tropicana Products
22 Inc., Tupperware Worldwide, Universal Studios
23 Florida, and The Walt Disney Company.

24 **Q. FOR WHAT OTHER UTILITIES HAS HEWITT ASSOCIATES**
25 **PERFORMED COMPENSATION AND BENEFITS ANALYSIS?**

1 A. The Brooklyn Union Gas Company, Carolina Power and
2 Light, Consumers' Power Company, The Dayton Power &
3 Light Company, The Detroit Edison Company, Duke
4 Power Company, Florida Power Corporation, Louisville
5 Gas and Electric Company, Minnesota Power, Nashville
6 Electric Service, Oglethorpe Power Corporation,
7 Potomac Electric Power Company, Public Service
8 Enterprise Group Inc., SCANA, Sonat, The Southern
9 Company (Gulf Power, Georgia Power, Alabama Power,
10 Savannah Power, etc.), Tacoma Public Utilities,
11 Unicom Corporaton, Washington Energy Company, and
12 Wisconsin Power and Light Company.

13 **Q. AS A PROFESSIONAL IN THE FIELD OF COMPENSATION, HAVE**
14 **YOU PERSONALLY CONDUCTED COMPENSATION OR COMPETITIVE**
15 **MARKET ANALYSES FOR OTHER FIRMS AND UTILITIES? IF**
16 **SO, PLEASE NAME SOME OF THEM.**

17 A. Yes. I have conducted and/or supervised numerous
18 market studies for a wide variety of organizations.
19 Some examples in the utility industry are: The
20 Southern Company, Carolina Power and Light, Sonat,
21 SCANA (South Carolina Electric and Gas), Florida
22 Power Corporation, Nashville Electric Service, and
23 Duke Power Company.

24 Some other organizations I have conducted
25 and/or supervised market studies for include AvMed

1 Sante Fe, Blue Cross Blue Shield of Georgia, Bowater
2 Incorporated, Burger King Corporation, Burlington
3 Industries Incorporated, Caterpillar Incorporated,
4 Coca-Cola Bottling Company-Consolidated, Coulter
5 Corporation, DiMwtal Equipment Corporation, Exxon
6 Chemical Company, First Union Corporation, General
7 Electric Appliance Division, Interim Services Inc.,
8 International Paper Company, Jacksonville Port
9 Authority, Lykes Brothers, The Mayo Clinic, Milton
10 Roy Company, National Gypsum Company, Oxford
11 Industries, Prison Rehabilitative Industries and
12 Diversified Enterprises, Inc. (PRIDE), Racal-Datacom
13 Inc., St. Joseph Hospital (Tampa), Springs
14 Industries, and Wachovia Corporation.

15 Most of the clients I have worked with have
16 included some level of market-based pay analysis.
17 Most recent examples include:

- 18 • A Washington D.C.-based financial services
19 organization where data was developed on a
20 broad cross-section of 50 jobs;
- 21 • A Charlotte, North Carolina-based financial
22 services organization where market data was
23 developed on 80 jobs in the information
24 systems area;
- 25 • A Florida organization where data was

1 developed on almost a 100 jobs throughout the
2 state;

3 • A Florida hospital where data was developed on
4 75 jobs;

5 • An Atlanta organization where market data was
6 developed on almost a 100 jobs; and

7 • A South Carolina organization where data was
8 developed on 150 jobs.

9 Because of the extensive nature of the market data
10 analyses Hewitt Associates conducts, we have access
11 to a broad range of compensation surveys. We also
12 have developed detailed processes for ensuring the
13 accuracy of the data.

14 **Q. FOR HOW LONG HAVE YOU BEEN EMPLOYED WITH**
15 **HEWITT ASSOCIATES?**

16 A. Seven and a half years.

17 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?**

18 A. I received a Bachelor of Business Administration
19 from Georgia State University with a major in
20 general management in 1967, and I received a Masters
21 of Business Administration from Georgia State
22 University with a specialty focus on human resources
23 management in 1971.

24 **Q. WHAT CERTIFICATES AND PROFESSIONAL TRAINING IN THE**
25 **FIELD OF COMPENSATION DO YOU HAVE?**

1 A. I have held membership in the American Compensation
2 Association, the Atlanta Area Compensation
3 Association, and the Society for Human Resource
4 Management. Through those organizations, other
5 professional organizations, and internal
6 opportunities with my employers, I have attended
7 dozens of training courses related to compensation
8 and benefits.

9 **Q. HAVE YOU CONDUCTED TRAINING FOR PROFESSIONALS IN THE**
10 **FIELD OF EMPLOYEE BENEFITS AND COMPENSATION?**

11 A. Yes. I have conducted numerous training courses for
12 managers and supervisors covering both the
13 philosophical aspects of compensation and benefits,
14 as well as the administrative details of how those
15 programs should be managed within our company.
16 Additionally, I served as an Assistant Professor at
17 Central Piedmont Community College.

18 In over 20 years of consulting, I have
19 conducted many training courses and seminars for
20 clients and professional organizations. I have
21 addressed American Compensation Association groups
22 in New York; Philadelphia; Washington, D.C.;
23 Atlanta; Miami; Tampa; Orlando; Jacksonville;
24 Columbia, South Carolina; Greenville, South
25 Carolina; Greensboro, North Carolina; Charlotte,

1 North Carolina; Raleigh, North Carolina; Knoxville,
2 Tennessee; Nashville, Tennessee; Memphis, Tennessee;
3 and Richmond, Virginia.

4 Client services will also include some
5 training and instruction for the client. Having
6 served over 250 clients, it is difficult for me to
7 enumerate which specific clients required some form
8 of supplementary training and which did not;
9 however, at least 25% of my client assignments
10 involved some level of training. Additionally, as
11 part of the normal services provided, we perform a
12 form of training for our clients. We explain new
13 concepts and ideas to executives and work with them
14 to establish a strategy for the organization. We
15 then apply those concepts and ideas with the
16 compensation professionals in the organization, and
17 as a part of the application, we are sharing our
18 knowledge and experiences in a way that could be
19 considered ongoing training. Essentially, we are
20 hired by our clients because they believe the
21 breadth of our experience and the knowledge we bring
22 to the assignment will add value to their
23 enterprises.

24 **Q. COULD YOU DESCRIBE YOUR BACKGROUND IN THE FIELD OF**
25 **COMPENSATION AND EMPLOYEE BENEFITS?**

1 A. My entire business experience has been aligned with
2 human resource activities and has included some
3 level of compensation and/or employee benefits
4 activities. I began working for Equifax (called
5 Retail Credit Company at the time) in 1963. While
6 with Equifax, my duties consisted of working with
7 the group medical insurance program, paying claims,
8 analyzing data, working with carriers during renewal
9 activities, compensation analytical work, and
10 special projects. Approximately half my time was
11 spent on compensation issues and included conducting
12 survey data analysis, job evaluations, pay system
13 design and ongoing administration.

14 I spent an additional seven years as a
15 corporate compensation and employee benefit manager
16 with Belk Store Services and Rollins Incorporated.
17 My duties for both these employers included the full
18 range of design, administration, and funding for
19 compensation and employee benefit programs. I
20 worked with trustees, money managers, and carriers
21 to refine existing employee benefit programs and
22 monitor financial results. I also designed
23 compensation programs for a broad range of employee
24 groups, including retail sales clerks, white-collar
25 administrative employees, management and executive

1 employees, lawn care specialists, exterminators,
2 customer representatives, home protection equipment
3 installers, and outside sales representatives.

4 I began consulting approximately twenty years
5 ago. My entire consulting career has been focused
6 on compensation related activities. As I mentioned,
7 I have worked with more than 250 clients during this
8 time, and the myriad projects I have worked on has
9 included market pricing, job evaluations, salary
10 structure design and development (including
11 different forms of traditional structures, as well
12 as alternative approaches to broadbanding), base pay
13 design (including traditional approaches, as well as
14 competency-based, skill-based, and team-based pay),
15 short-term incentive design, long-term incentive
16 design, performance management design, and sales
17 compensation. Also, because of my background, some
18 of these projects included employee benefits and
19 some broader human resources issues; however, my
20 concentration has been on compensation.

21 **Q. PLEASE STATE THE DUTIES OF YOUR CURRENT POSITION**
22 **WITH HEWITT ASSOCIATES.**

23 A. My duties include:

- 24 • Provide high quality advice and design
25 assistance to clients throughout Hewitt

- 1 Associates' Southeastern region;
- 2 • Market Hewitt Associates' services to
- 3 prospective clients;
- 4 • Develop the direction for the Direct Pay
- 5 Practice in the Southeastern region, in
- 6 conjunction with the firm's overall business
- 7 direction.

8 **Q. HAVE YOU PREVIOUSLY TESTIFIED ON ISSUES REGARDING**

9 **COMPENSATION FOR UTILITY CLIENTS?**

10 A. No. In working with some of our utility clients,

11 the possibility has been raised, and we have

12 discussed the potential need. However, none of our

13 other utility clients have had the need for me to

14 testify.

15 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN**

16 **THIS CASE?**

17 A. The purpose of my testimony is to rebut the

18 testimony of Office of Public Counsel witness Mr.

19 Paul A. Katz concerning the basis for SSU's proposed

20 market salary adjustment.

21 **Q. DID HEWITT ASSOCIATES PERFORM A COMPENSATION STUDY**

22 **FOR SSU TITLED "COMPETITIVE PAY DATA AND ANALYSIS**

23 **FOR SELECTED POSITIONS" DATED APRIL 1995?**

24 A. Yes. Exhibit _____ (DGL-3) is a copy of that study.

25 **Q. DO YOU BELIEVE THE COMPENSATION STUDY**

1 HEWITT ASSOCIATES PERFORMED FOR SSU WAS A VALID
2 SURVEY THAT WAS MARKET BASED WITH THE SPECIFIC
3 MARKETS BEING THE LOCALITIES IN WHICH SSU OPERATES?
4 IF SO, PLEASE TELL US WHY.

5 A. Yes, I believe the market data analysis is valid.
6 We employ a rigorous process to ensure the relevance
7 and validity of the data, and this process was
8 followed for the SSU study. The process includes:

9 • **A careful review of SSU's jobs.** This included
10 an examination of job descriptions,
11 organization charts, and discussions with
12 management to clarify questions about actual
13 job content.

14 • **A clear understanding of the appropriate**
15 **competitive market places.** When developing
16 competitive survey data, it is important to
17 understand where employees are most likely to
18 be recruited and where they are most likely to
19 go if they are offered other employment. Some
20 key findings from this analysis are:

21 - Higher level jobs and jobs requiring
22 specific or unique technical skills and
23 competencies are recruited from a much
24 wider market place than lower level jobs
25 or jobs requiring skills and competencies

1 that are more easily obtained. For
2 example, a search for a Chief Financial
3 Officer likely will be on at least a
4 regional basis and could be national. It
5 is also possible that this search could
6 include utility and non-utility
7 organizations. The search for a clerical
8 position is much more likely to be
9 conducted on a local basis, and the
10 comparable organizations are likely to
11 include all employers.

12 - Many "staff" positions (e.g., Human
13 Resources, Accounting, Information
14 Systems, etc.) may be recruited or lost
15 from a variety of industries; they are
16 not confined to the utility industry.

17 - Some jobs (e.g., Engineers) will have
18 different market places depending on the
19 level of the job. For example, an Entry
20 Level Engineer likely has the option of
21 going into almost any industry. As the
22 Engineer gains experience in a specific
23 industry, however, they will tend to
24 focus future job searches on that
25 specific industry. Likewise, companies

- 1 in the industry will tend to look for
2 senior level people who have specific
3 experience to their industry.
- 4 - The competitive market place for some
5 jobs is relatively narrowly defined. For
6 example, an experienced Water Plant
7 Operator is most likely to be attracted
8 to other water plants. SSU's experience
9 is that their primary competition for
10 this job in Florida is in plants operated
11 by local governments that are in
12 proximity to SSU's water plants.
- 13 • **Using a variety of surveys that captures data**
14 **on the relative markets.** This step actually
15 has two components:
- 16 - Market specificity: We want to ensure
17 that data is reflective of the
18 appropriate market place. Different
19 surveys contain different jobs and
20 different locations; therefore, we do not
21 rely on a single survey source to provide
22 all data. We actually referenced 19
23 different surveys in the course of our
24 data analysis for SSU.
- 25 - Control bias: It is possible for any one

1 survey to contain some element of data
2 bias. This can be caused by the way
3 companies match the jobs to their survey
4 descriptions, the size or types of
5 companies in the survey, etc. Therefore,
6 we attempt to use multiple survey sources
7 for each job match whenever possible as a
8 control mechanism. If we get closely
9 comparable data from two different
10 sources, it helps establish the
11 credibility of each source.

12 However, in some cases, a single
13 survey source provides the most directly
14 relevant data, and no other valid data
15 source exists. In these cases, we use
16 this survey as the sole input. Our
17 clients also are encouraged to review
18 their own recruiting experience to
19 provide further validation of the single
20 source.

21 • **Carefully matching SSU's jobs with surveyed**
22 **jobs.** The data analysis is not conducted by
23 looking at job titles. Rather we take the
24 information we have gathered concerning the
25 **content** of SSU's jobs and compare it with job

1 **descriptions** contained in the survey sources.
2 We make every effort to ensure that the
3 descriptions and the information contained in
4 the survey are comparable to the content of
5 the SSU job. Once this is established, we
6 then use that data in the survey analysis.

- 7 • **Adjusting survey data to be effective at a**
8 **constant date.** Because the effective dates of
9 the data will vary in different surveys, all
10 data is adjusted to a common date; in this
11 case, it was projected to July 1, 1995.
- 12 • **Weighting survey data.** We carefully analyze
13 each survey, the closeness of the job match,
14 the timeliness of the survey, and the
15 appropriateness of the market place. Based on
16 this analysis, we use our experience and
17 judgment to assign a weighting to each survey
18 input. This helps to ensure that the most
19 relevant data is given the highest weight in
20 the overall calculation.
- 21 • **Establishing an Estimated Market Value.** We
22 compile all the survey data and develop a
23 weighted average. The weighted average
24 provides SSU with a close approximation of the
25 market value of each particular job under

1 study. The Estimated Market Values ("EMV's")
2 were established to reflect an approximation
3 of the market average or going rate for each
4 job in the study.

5 As you can see, extreme care is taken to
6 ensure the relevance, accuracy, validity and proper
7 comparison of all data included in the study. We
8 believe the findings provide SSU with an accurate
9 representation of market values for the benchmark
10 jobs that were analyzed.

11 **Q. WHY DID YOU USE THE MARKET AVERAGES AS THE EMVS FOR**
12 **THE ANALYSIS FOR SSU?**

13 A. SSU's compensation strategy is designed to target
14 pay levels for all jobs included in this study at
15 approximately market average levels.

16 **Q. IN YOUR OPINION, IS THIS STRATEGY APPROPRIATE AND**
17 **CONSISTENT WITH TYPICAL PRACTICE?**

18 A. Yes. While some organizations will purposely target
19 pay levels to be above competitive market levels in
20 an effort to help ensure their ability to attract
21 and retain qualified employees, most organizations
22 target pay levels at market average rates.
23 Interestingly, in the past, it was not unusual for
24 utilities to have aggressive pay policies targeted
25 at 75th percentile or higher levels. However, in

1 the past few years, our experience has shown that
2 virtually all the utilities we work with in the
3 Southeast have modified their strategies to reflect
4 more of a market average direction. Concurrently,
5 they often develop incentive programs which provide
6 the opportunity for total compensation to be above
7 market averages, but only when specific performance
8 objectives are achieved.

9 **Q. WERE THE METHODS HEWITT ASSOCIATES USED TO EVALUATE**
10 **SSU'S LABOR MARKET COMPETITIVENESS THE SAME AS THOSE**
11 **YOU HAVE USED FOR OTHER MAJOR COMPANIES AND**
12 **REGULATED UTILITIES IN FLORIDA AND ELSEWHERE IN THE**
13 **UNITED STATES?**

14 A. Yes. We have found the process I just outlined to
15 be extremely effective in developing pay levels.

16 **Q. WERE THE METHODS HEWITT ASSOCIATES USED TO EVALUATE**
17 **SSU'S LABOR MARKET COMPETITIVENESS THE SAME AS YOU**
18 **HAVE USED FOR OTHER UTILITIES AND BUSINESSES WHICH**
19 **HAVE EMPLOYEES DISPERSED IN A MIX OF RURAL AND**
20 **METROPOLITAN AREAS THROUGHOUT ONE STATE OR REGION?**

21 A. Yes.

22 **Q. WOULD YOU SAY THAT THE METHODS HEWITT ASSOCIATES**
23 **USED ARE CONSIDERED STATE OF THE ART AS USED BY**
24 **MAJOR HUMAN RESOURCES COMPENSATION PROFESSIONALS IN**
25 **THE UNITED STATES?**

1 A. Yes. While we believe we have refined the market
2 pricing process more than many companies and have
3 developed more rigorous documentation than some do,
4 the basic approach is used by most major
5 organizations in the country, both utility and
6 non-utility, when developing competitive pay data on
7 their jobs.

8 Q. **FOR WHAT PURPOSE DO YOUR OTHER CLIENTS USE THE**
9 **COMPETITIVE PAY DATA YOU PROVIDE?**

10 A. Competitive pay data is used by our clients to
11 assist them in making a number of decisions. Some
12 examples are:

13 • **Assign jobs to salary grades and ranges.** Many
14 companies now take the approach that market
15 data is the most appropriate information to
16 use when creating salary structures and
17 assigning jobs to the salary grades. They, or
18 we, collect the competitive pay data as I
19 previously described. They then use the
20 Estimated Market Value to determine which
21 salary grade a job should be placed in.
22 Typically, jobs are placed into the grade with
23 a midpoint or target pay level that is closest
24 to the market value.

25 • **Updating existing salary structure.** The

1 competitive pay data often is compared with
2 existing midpoints or target pay levels in a
3 salary structure. This information is then
4 used to adjust the salary structure so that it
5 better reflects the competitive realities of
6 the market place. This is necessary because
7 most organizations use the salary structure to
8 help them manage and control their salary
9 expenses. If the structure is too low, they
10 run the risk of underpaying employees; if the
11 structure is too high, they run the risk of
12 overpaying employees.

13 • **Determining the appropriateness of current pay**
14 **levels.** This concept is similar to the
15 previous one; however, in this analysis actual
16 salary levels, rather than midpoints, are
17 compared with competitive pay levels. Again,
18 the purpose of this analysis is for the
19 organization to determine whether or not
20 current pay levels are high or low relative to
21 the market place.

22 • **Determining salary increase budgets.**
23 Depending on the outcome of the analysis I
24 just described. Many companies use the
25 competitive information to assist them with

1 developing their salary increase budgets. For
2 example, if salaries, on average, are well
3 above the competitive levels, the company may
4 decide its salary increase budget could be
5 less than budgets being developed by other
6 organizations. Conversely, if salaries are
7 relatively low compared to the competition,
8 the company may desire a salary increase
9 budget that is high enough to provide some
10 level of "catch-up." Alternatively, the
11 company may simply develop a special budget
12 for giving adjustments that will allow the
13 catch-up to occur.

14 **Q. COULD YOU PLEASE DESCRIBE THE APPROACH FOR**
15 **DEVELOPING MARKET INFORMATION WHICH YOU USED WHEN**
16 **CONDUCTING YOUR ANALYSIS FOR SSU?**

17 A. We essentially broke the project into four steps.
18 The first step was to define carefully the scope of
19 our project activities in a project planning
20 meeting. During this meeting, we discussed
21 appropriate criteria for selecting benchmark jobs,
22 the number of jobs, potential jobs for inclusion as
23 benchmarks, and the likely survey sources we would
24 be using for developing data.

25 During this same meeting, we conducted a step

1 we labeled "direction setting." We discussed
2 specific issues regarding the appropriate groups
3 against which SSU should compare themselves to and
4 the level at which pay should be compared.

5 We highlighted the importance of job matching
6 and established a detailed process for ensuring that
7 SSU's jobs are matched appropriately to the survey
8 jobs. I described this process in an answer to a
9 previous question.

10 The final step was to develop the competitive
11 market information. We called this step "market
12 pricing." The process we agreed upon and ultimately
13 used is the same process I described in an answer to
14 a previous question.

15 **Q. PLEASE INDICATE THE METHODS USED BY**
16 **HEWITT ASSOCIATES TO SELECT THE WAGE SURVEYS FOR THE**
17 **SSU COMPETITIVE MARKET ANALYSIS?**

18 A. We have used the same methods for SSU's study that
19 we have used for hundreds of other clients in that
20 we selected surveys with the following
21 characteristics:

- 22 • Those containing jobs that could be compared
23 directly to SSU jobs.
- 24 • Those containing organizations that compete
25 with SSU for similar talent.

- 1 • Those covering the appropriate geographic
- 2 areas in which SSU is most likely to recruit
- 3 talent and/or lose people.
- 4 • Those conducted by reputable organizations.
- 5 • Those which were timely enough for the data to
- 6 be considered up-to-date.

7 **Q. PLEASE DESCRIBE THE MEASURES HEWITT ASSOCIATES USED**
8 **TO ENSURE THAT THE COMPARISON PAY DATA USED IN THE**
9 **COMPETITIVE MARKET SURVEY WAS RELEVANT TO THE**
10 **GEOGRAPHIC MARKETS IN WHICH SSU RECRUITS EMPLOYEES.**

11 A. Again, we used the same methods used for hundreds of
12 other clients. We reviewed each job to determine
13 where employees are most likely to be hired and
14 where they are most likely to go if they leave. We
15 made an independent assessment based on our
16 experience with various types of jobs, and then
17 discussed this assessment with SSU management to
18 ensure the reasonableness of conclusions. We then
19 selected published salary surveys which contained
20 data from these geographic areas.

21 **Q. WAS THE PROCESS USED TO WEIGHT THE SURVEY DATA IN**
22 **CALCULATING THE ESTIMATED BASE MARKET VALUE FOR THE**
23 **SSU STUDY THE SAME AS THAT USED FOR YOUR OTHER**
24 **CLIENTS?**

25 A. Yes.

1 Q. DID SSU PROVIDE HEWITT ASSOCIATES WITH DETAILED
2 FORMAL POSITION DESCRIPTIONS FOR ALL THE JOBS WHICH
3 IT EMPLOYS ALONG WITH A COPY OF ITS ENTIRE PAY
4 STRUCTURE?

5 A. Yes.

6 Q. PLEASE DESCRIBE THE PROCESS USED BY
7 HEWITT ASSOCIATES TO MATCH JOB DESCRIPTIONS SUPPLIED
8 BY SSU TO THE JOB DESCRIPTIONS SUPPLIED IN THE
9 VARIOUS SURVEYS USED.

10 A. We carefully matched SSU's job descriptions to
11 survey descriptions contained in the published
12 salary surveys we used.

13 Q. PLEASE EXPLAIN THE STATISTICAL ANALYSES USED TO
14 COMPARE SSU'S AVERAGE INCUMBENT PAY TO THAT OF THE
15 SURVEYED COMPANIES.

16 A. We conducted several sets of analyses for SSU. The
17 actual reports are included in Exhibit _____ (DGL-
18 3). I will reference the exhibit numbers in
19 describing each of these.

20 • Actual Pay and Midpoint Compared to Market
21 (Exhibit _____ (DGL-3), page 7 of 81): This
22 analysis lists the benchmark jobs and shows a
23 comparison of SSU's actual pay level and
24 midpoint to the Estimated Market Value
25 developed during our analysis. This exhibit

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provides several significant findings:

- On average, SSU's midpoints and its actual pay levels, the latter being the key indicator Mr. Katz would presumably focus on, are both below competitive market levels.
- On average, midpoint values are further behind competitive market values than are actual pay levels. This supports the fact that SSU has attempted to keep pace with pay movement despite having a salary structure that is well below competitive levels.
- There is a wide dispersion of SSU's actual pay levels and midpoint values around the market value. As can be seen, generally speaking, the correlation between SSU's midpoint values and its actual pay levels is high. Thus, if the midpoint is above market levels the actual pay level tends to be above market levels, and conversely if the midpoint is below market levels, the actual pay levels tend to be below market levels.

This particular analysis is important from another

1 perspective. It indicates that the previous system
2 being used by SSU to value its jobs was not doing an
3 effective job of predicting external market values.
4 Because the system apparently had a strong internal
5 focus, there was some disconnection from what was
6 happening in the external market place. This
7 exhibit highlights the fact that if SSU wants its
8 actual pay levels to more closely approximate
9 competitive pay levels, it will need to change its
10 job valuing procedures as well as bring pay to
11 competitive levels.

12 • **Comparison of SSU Salaries and Midpoints with**
13 **Market Averages (Exhibit _____ (DGL-3), page**
14 **12 of 81):** This analysis displays graphically
15 how SSU's actual average salary levels and
16 midpoints compare with the market values,
17 using salary grades as a variable.

18 This analysis provides a pictorial
19 example that SSU's actual average salaries are
20 below market averages at all levels, and SSU
21 midpoints are below market averages at almost
22 all levels. However, it is also instructive
23 to note that for higher graded jobs, the
24 differential increases. In other words, lower
25 level jobs are paid closer to the market place

1 than higher level jobs.

2 Again, this is important if SSU wants to
3 make its pay structure more reflective of
4 competitive practice. SSU will either have to
5 design a new salary structure or adjust its
6 current salary structure by differing amounts
7 (e.g., grade 1 would be increased by a
8 relatively small amount and grade 22 would be
9 increased by a relatively large amount).

10 In developing this graphic, we also conducted
11 a statistical analysis of the data. This
12 statistical analysis verifies that in general SSU's
13 actual pay levels and midpoints move in a consistent
14 pattern with the market, but they are consistently
15 low.

16 • **Market Ratio and Comparatio Comparisons**
17 **(Exhibit _____ (DGL-3), page 13 and 14 of 81):**

18 These two bar graphs provide a different
19 display of the data outlined in the previous
20 analysis. By grade, this graph shows the
21 percentage relationship of SSU's midpoint and
22 average salary level compared to the market
23 values.

24 • **Cost to Bring Actual Pay to Market (Exhibit**
25 **_____ (DGL-3), page 15 of 81):** Using the

1 information outlined in Exhibit _____ (DGL-3),
2 page 8 of 81, we calculated the amount of
3 salary increase needed, on average, to bring
4 the current pay level to the competitive
5 level. For example, the Data Entry Operator
6 I is shown as having a base pay level of
7 \$16,000 and an estimated market value of
8 \$17,500. By increasing the \$16,000 by 9.4%,
9 you get \$17,500. In the aggregate, this
10 exhibit shows that it would take 17.3% to
11 bring all SSU pay levels to the market values
12 developed.

13 **Q. ACCORDING TO YOUR REPORT, ONE OF THE SURVEYS HEWITT**
14 **ASSOCIATES RELIED ON WAS THE FLORIDA LEAGUE OF**
15 **CITIES SURVEY, PLEASE GENERALLY DESCRIBE THE**
16 **PARTICIPATING EMPLOYERS IN THE FLORIDA LEAGUE OF**
17 **CITIES SURVEY AND THEIR GEOGRAPHICAL LOCATIONS.**

18 A. The Florida League of Cities Survey actually is
19 broken into two separate volumes. One volume covers
20 municipalities with populations in excess of 50,000
21 people, and the other volume covers municipalities
22 with populations between 10,000 and 50,000 people.
23 The municipalities include both city and county
24 government. Some examples of the municipalities
25 included are as follows:

1	City or County Name	Population
2	Lake City	10,087
3	Niceville	10,915
4	Holly Hill	11,198
5	St. Augustine	11,679
6	Stuart	12,195
7	Vero Beach	17,443
8	Plant City	24,033
9	Ormond Beach	30,570
10	Bradenton	46,342
11	North Miami	50,090
12	Martin County	105,031
13	St. Lucie County	158,937
14	Collier County	168,514
15	Leon County	202,570
16	Manatee County	219,313
17	Jacksonville	653,206
18	Broward County	1,294,0900
19	This listing is simply a brief sample of the	

1 municipalities covered by the surveys. There are
2 120 municipalities covered by these two volumes.

3 **Q. DO YOU THINK THE FLORIDA LEAGUE OF CITIES SURVEY**
4 **ABOVE IS A VALID COMPARISON FOR SSU TO USE IN**
5 **EVALUATING THE LABOR MARKET POSITION OF ITS LICENSED**
6 **OPERATORS AND OTHER WATER AND WASTEWATER PLANT**
7 **PERSONNEL?**

8 A. Yes. Plant operators are highly trained, but in a
9 very narrow specialty. Therefore, their most likely
10 path of movement is to another water or wastewater
11 plant treatment operator. We determined, and SSU's
12 experience confirmed, the most likely competition
13 for plant operators is found in city and county
14 government water and wastewater operations.

15 **Q. PLEASE DESCRIBE THE OTHER SURVEYS THAT WERE IN THE**
16 **SSU MARKET COMPARISONS AND INDICATE WHY THEY WERE**
17 **SELECTED FOR COMPARISON AGAINST THE SSU BENCHMARK**
18 **JOBS IN THE HEWITT ASSOCIATES ANALYSIS.**

19 A. Descriptions of the actual surveys used are
20 contained in Exhibit _____ (DGL-3), pages 22 through
21 25 of 81.

22 As discussed in an answer to a previous
23 question, we selected these surveys because they
24 provided information on the appropriate jobs, from
25 the appropriate labor markets, with data that is

1 timely.

2 **Q. WHY DO YOU THINK THE OTHER SURVEYS USED FOR MARKET**
3 **COMPARISONS WERE VALID AND RELEVANT TO SSU'S LABOR**
4 **MARKET?**

5 A. As described previously, there are two primary
6 reasons for using multiple survey sources:

7 • **Multiple market places.** Different surveys
8 examine different job categories and labor
9 markets. Therefore, it is important to use
10 surveys that most directly reflect the pay
11 practices of the **relevant** external market
12 places.

13 • **Data bias.** To the extent possible, we
14 encourage the use of multiple survey sources
15 when examining any particular job. This helps
16 to mitigate the potential for a single survey
17 containing data error.

18 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND GENERAL**
19 **OBSERVATIONS REGARDING SSU'S CURRENT ACTUAL**
20 **COMPENSATION AND SALARY STRUCTURE AS COMPARED TO THE**
21 **RELEVANT COMPETITIVE LABOR MARKETS.**

22 A. In general, SSU's actual pay levels and midpoint
23 values (salary structure) are below competitive
24 market levels.

25 **Q. ON PAGE 11 OF THE STUDY, HEWITT ASSOCIATES SHOWS AN**

1 **AVERAGE OF 17.3% AS THE "COSTS TO BRING (SSU'S)**
2 **ACTUAL PAY TO MARKET." PLEASE DESCRIBE HOW THE 17.3%**
3 **WAS CALCULATED.**

4 A. A calculation was made to determine the size of
5 increase that would be needed to raise the average
6 pay level for each job to the Estimated Market
7 Value. In the example mentioned previously, it
8 would require a 9.4% increase to raise the Data
9 Entry Operator I from \$16,000 to \$17,500. The 17.3%
10 was calculated in the same manner using the
11 aggregated actual base salary levels and Estimated
12 Market Values.

13 **Q. IN VIEW OF THE AVERAGE COST OF 17.3% NECESSARY TO**
14 **BRING SSU'S PAY UP TO MARKET LEVELS, DO YOU THINK**
15 **THAT IT WAS JUSTIFIED AND REASONABLE FOR SSU TO**
16 **BUDGET 4.765% OF ITS 1996 LABOR BUDGET TO IMPLEMENT**
17 **COMPETITIVE MARKET ADJUSTMENTS IN 1996?**

18 A. Our analysis clearly indicates that SSU's pay levels
19 are below competitive pay levels. We found in our
20 initial benchmark comparison that it would take
21 17.3% on average to raise SSU's pay to competitive
22 market levels.

23 We now have conducted a more in depth analysis
24 of each individual employee's rate of pay in SSU's
25 Operations and Maintenance and Customer Service

1 areas. This analysis looked at current individual
2 incumbent rates of pay and compared them to the
3 external market. We found overall for Operations
4 and Maintenance that it would require an increase of
5 11.3% of that department's payroll to raise actual
6 pay level to market and 15.1% to raise Customer
7 Service employees pay to market levels. These two
8 departments represent 60% of all SSU jobs.

9 Typically when pay is this far below market
10 our clients will allocate some percentage of payroll
11 and adjust pay levels. The percentage would not be
12 enough to bring pay levels up to market levels
13 immediately, but it should be enough to begin to
14 close the gap.

15 Based on this detailed analysis of each
16 incumbent's actual pay, it seems to us that 4.765%
17 is a reasonable starting point to begin to address
18 these below market labor rates. Many organizations
19 in these circumstances will develop separate budgets
20 to be used for granting market adjustments, and it
21 is important to have the money available to make
22 adjustments to employees in jobs viewed as being
23 critical to an organization's success. So, in
24 summary, I believe it is reasonable for SSU to have
25 requested funds needed to make market related pay

1 adjustments.

2 Q. DO YOU BELIEVE BASED ON THE RESULTS OF YOUR 1995
3 STUDY OF SSU'S ACTUAL BASE PAY AND PAY GRADE
4 STRUCTURE THAT SSU'S PAY IS REASONABLY COMPETITIVE
5 IN THE LABOR MARKETS WHEREIN SSU RECRUITS ITS
6 EMPLOYEES?

7 A. No. SSU's pay levels, on average, are below
8 competitive pay levels.

9 Q. WHAT TYPICALLY ARE THE EFFECTS ON RECRUITMENT,
10 RETENTION AND QUALITY OF SERVICE FOR ORGANIZATIONS
11 THAT DO NOT PAY COMPETITIVE LABOR RATES?

12 A. This question can be more complex than simply
13 looking at competitive pay levels. However, most
14 organizations believe, and experience supports, that
15 if actual pay levels or the ability to pay, fall
16 below competitive rates, it will be much harder to
17 recruit individuals into the organization and the
18 organization will be much more likely to lose
19 individuals to other organizations who are willing
20 to pay more.

21 The extent of the difficulties in recruiting
22 and retention will be influenced by how far below
23 competitive pay levels the organization's pay
24 practice is. Obviously, an organization that offers
25 pay levels 20% below the competition is likely to

1 have a much harder time recruiting and retaining
2 employees than an organization that has pay levels
3 only 5% below the competition. Further, if an
4 organization's pay level causes it to have
5 difficulty hiring qualified employees, the long-term
6 effect is that the quality of service will no doubt
7 suffer. In this case, since SSU's pay levels are
8 below competitive market levels, I consider it
9 likely that its pay levels will have a negative
10 effect.

11 Q. DO YOU AGREE WITH OPC WITNESS MR. KATZ THAT "THE
12 SALARY STRUCTURE IS IRRELEVANT TO A COMPANY'S
13 ABILITY TO COMPETE IN THE MARKET" AND THAT "THE FACT
14 THAT SSU DID NOT RAISE ITS SALARY STRUCTURE HAS NO
15 BEARING WHATSOEVER ON (A) ITS ACTUAL RATES, OR (B)
16 ITS ABILITY TO FAIRLY COMPETE IN THE LABOR MARKET."?

17 A. I believe there is a theoretical answer and a
18 realistic answer to this question. Briefly, the
19 **theoretical** answer is that what Mr. Katz says is
20 true. In **theory**, a company **could** completely ignore
21 its salary structure and pay employees any amount
22 they want to. However, this raises the question of
23 why they would even spend the time to develop the
24 structures in the first place.

25 The **realistic** answer is that virtually all

1 companies develop salary structures to help them
2 manage and control their salary levels. Mr. Katz is
3 correct in stating that most salary ranges are
4 typically set to be 50% from minimum to maximum.
5 However, most organizations establish a rate within
6 the range (typically the midpoint) that they
7 consider to be the target or the control rate of pay
8 for jobs in that salary range. By policy and
9 practice, most organizations want the pay levels of
10 employees in that range to "cluster" around this
11 control point, and pay administrative guidelines are
12 designed to ensure that this occurs. Most programs
13 provide larger increases or more frequent increases
14 for employees whose pay falls below the control
15 point and smaller increases or less frequent
16 increases to employees whose pay is above the
17 control point.

18 It is easy to see that using this approach
19 tends to force pay levels for most employees toward
20 the control point. The extremes of the range
21 typically are reserved for new hires and for
22 employees who perform at the extremes. For example,
23 a consistently high performing employee may well be
24 paid above the control point; however, the number of
25 these employees should be relatively limited.

1 Likewise, a consistently low performing employee
2 should be paid below the control point, and again,
3 there should be relatively few of these.

4 This concept has been an accepted compensation
5 principle for years. The intent is to establish the
6 control point at a level where the organization is
7 reasonably confident it can attract and retain
8 qualified employees. Therefore, if the control
9 point is being used to manage pay, and most
10 companies use it this way, and it is allowed to fall
11 well below or move well above competitive pay
12 levels, it will have a direct and adverse impact on
13 an individual organization's pay levels.

14 Mr. Katz states, "So, salary structure
15 increases and salary increases **can be** two completely
16 different things." The important point here is that
17 while it is true that these "can be" two different
18 things, in reality, they are closely integrated in
19 virtually all organizations, and the salary
20 structure has a direct impact on pay practices and
21 pay levels.

22 **Q. ACCORDING TO MR. KATZ TESTIMONY, IT IS HIS OPINION**
23 **THAT NONE OR VIRTUALLY NONE OF SSU WITNESS LOCK'S**
24 **CONCLUSIONS WHICH ALSO INCLUDE THE ENTIRE**
25 **HEWITT ASSOCIATES STUDY BE GIVEN ANY WEIGHT BECAUSE:**

1 **(A) THE FOUNDATION SALARY SURVEYS USED ARE**
2 **NON-COMPARABLE TO SSU'S INDIVIDUAL ESTABLISHMENTS**
3 **AND (B) THE SURVEY DATA ITSELF HAS BEEN MISUSED. DO**
4 **YOU AGREE WITH MR. KATZ'S STATED OPINION?**

5 A. No. As I have already testified, the methodology
6 employed in this study is rigorously applied to
7 ensure comparability of job matches, comparability
8 of labor market definitions (including geographic
9 consideration), and validity of the data analysis
10 itself. Therefore, I believe the survey information
11 is comparable to SSU's situation and the data has
12 been applied to provide an accurate representation
13 of SSU's actual pay levels compared to the external
14 market place.

15 **Q. DO YOU BELIEVE THAT MR. KATZ DEMONSTRATED ANY**
16 **UNDERSTANDING OF THE HEWITT ASSOCIATES STUDY**
17 **CONDUCTED FOR SSU?**

18 A. No. Since I had no direct contact with Mr. Katz, I
19 cannot unequivocally provide an opinion on his
20 qualifications. However, based on Mr. Katz's
21 experience and testimony, I do not believe he has
22 the requisite level of knowledge or expertise
23 necessary to properly evaluate the Hewitt Study.

24 Mr. Katz spent 25 years in a variety of
25 compensation positions for the federal government.

1 It has been a given in the private sector that the
2 compensation program in the federal government is
3 probably the most ineffective compensation program
4 in the country. Therefore, that experience does
5 little to expand the overall knowledge of best
6 practices in compensation.

7 During the past seven years, much of Mr.
8 Katz's experience has been as an expert witness
9 and/or working with public sector clients. Again,
10 public sector compensation programs are viewed as
11 not being reflective of best practices.

12 It is obvious from his resume that Mr. Katz
13 has significant educational and theoretical
14 background. However, I question whether or not that
15 background has been used to apply sound compensation
16 principals in a practical manner in a corporate
17 setting.

18 Also, most of Mr. Katz's education and
19 hands-on experience occurred in the 1980's or
20 before. It is important to point out that most of
21 the true innovations in compensation management have
22 occurred in the last ten years, with some of the
23 most significant changes being made in the last five
24 years. For example, when Mr. Katz retired from the
25 government, the most prevalent way to establish job

1 values was to use a quantitative job evaluation
2 process. These processes tended to focus more on
3 internal value than external value. As a result,
4 many practitioners of that time were unaware of some
5 of the refined approaches used to analyze and apply
6 market data to manage pay levels. Today, the most
7 prevalent job evaluation approach is to use the
8 external market as the primary method for
9 establishing job values.

10 Finally, based on Mr. Katz's testimony, it
11 does not appear that he read the entire Hewitt Study
12 at issue in this case. In that document, we clearly
13 described the activities taken to ensure
14 comparability of job matches, labor market, etc.,
15 but he seems to ignore that. Also, he seems to have
16 pulled data selectively from some of the exhibits
17 without indicating a balanced view of all the
18 exhibits. Therefore, I must conclude that he read
19 at least at some of the data, but chose to ignore or
20 did not review other parts of the report.

21 **Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?**

22 **A.** Yes, it does.