Table Of Contents

Page

Digest i

Chapter I
Introduction 1
Analysis of Historical Executive Salary Trends 2
Methodology 6
Audit Scope and Objectives 7

Chapter II
Board of Director Compensation Policies Show Wide Variance 9
Board Compensation Differs Significantly 9
Some WCFU Practices are Inappropriate 15
Statutory Inconsistencies Require Policy Clarifications 19

Chapter III
Workers' Compensation's Executive Pay Practices are Comparatively Aggressive 23
WCFU's CEO Compensation is Generally High 26
WCFU's Second-Level Salaries are Comparatively High 30
WCFU's Executives are Paid More Than Expected 31
WCFU Compares Primarily to a National Market 33

Chapter IV
Pay Practices at Utah Transit are Somewhat Aggressive 35
UTA's General Manager's Compensation is Generally Higher 36
UTA's Second-Level Salaries are Slightly High 38
UTA Executives are Paid More Than Expected 39
Comparison to Private Markets and Selected Transit Markets may Result in Somewhat Higher Salaries 41

Chapter V
Utah Retirement's Compensation Practices ppear Comparatively Moderate 43
URS Executive Director's Compensation Generally Compares Low 46
URS's Deputy Director's Salary Generally Compares Low 49
URS's Executive's Salaries Appear Reasonable 50
URS Compares Primarily to the State Market 51

Chapter VI
Utah Housing Finance Agency Executive Compensation is Comparatively Moderate 55
UHFA Executive Director Compensation is Within Selected Market Averages 57
UHFA Deputy Director's Compensation Falls Below Comparison Groups 61
Executive Compensation is Warranted by Agency Size and Experience 63
UHFA Identifies With Conservative State Market 63

Chapter VII
Recommendations 67

Agency Responses 71

Digest of a
Performance Audit of Compensation Practices of Quasi-Governmental Organizations

At your request, we have completed our review of board and executive compensation practices within three quasi-governmental organizations and one special district. Overall, we found significant compensation practice differences among the four organizations we reviewed. First, executive board compensation practices are significantly different among the four organizations. Second, the executive compensation practices at the Workers' Compensation Fund of Utah (WCFU) are comparatively aggressive. Third, the Utah Transit Authority (UTA) is somewhat aggressive in their executive compensation practices. Fourth, the Utah Retirement Systems' (URS) executive compensation practices are comparatively moderate, as are the executive compensation practices at the Utah Housing Finance Agency (UHFA). The markets to which organizations choose to compare has a significant impact on executive compensation. The Legislature may want to provide some direction to quasi-governmental organizations regarding appropriate comparison markets.

Each organizations' executive salaries have increased at a different rate since 1990. The salary of the Executive Director of Utah Housing Finance Agency has increased 29 percent, while the salary of the Executive Director of Utah Retirement Systems has increased 26 percent since 1990. On the other hand, the General Manager's salary at Utah Transit Authority has increased 60 percent, while the Chief Executive Officer's salary at Workers' Compensation has increased 306 percent since 1990.

These different rates of increase are due, in large part, to the markets (i.e., governmental, quasi-governmental, or private) the organization chooses as a comparison. This report clearly demonstrates that vastly different compensation amounts are being paid to the four organizations reviewed. However, before considering any specific compensation policies for quasi-governmental organizations, the Legislature first needs to determine how quasi-governmental organizations should operate (i.e. like private industry or like state government operations).

Quasi-governmental organizations as well as special districts have the freedom to choose whatever markets they would like to use in a salary comparison. Currently, quasi-governmental organizations are like private organizations in some ways. Specifically, the executive board of each quasi-governmental organization, rather than state government, is the controlling body of the organization, with the exception of the UHFA, whose board has statutory limitations. As a result, these organizations are exempt from many legislative statutes (e.g., the Utah Procurement Code, the Utah State Personnel Management Act) that state agencies must follow. It was thought that by removing these organizations from direct state control, the state may have less liability should the organization fail. Further, under this scenario, the state also has less control over the actions of the organization. If the Legislature wants more control over the actions of the quasi-governmental organizations (i.e., control over compensation issues), then establishing more policies directing their actions would be appropriate. However, by enacting more statutory policies, the Legislature would be bringing the quasi-governmental organizations under state control. Thus, while more control would be gained, more state liability would also be created.

The following summaries identify the most significant findings and conclusions of the audit:

Board of Director Compensation Policies Show Wide Variance. The board per diem rates among the four organizations vary significantly. In addition, there is variance as to the basis of per diem. Specifically, three organizations pay per diem for official meetings only with per diem ranging from $25 to $125 per meeting. WCFU, on the other hand, pays per diem on an hourly basis at the rate of $65 an hour. However, WCFU compensates its chairperson on a different basis than it does its members by paying him a flat $1,300 a month. The other three organizations pay their chairperson the same as the other board members. WCFU has gained approval from the Division of Finance for its board compensation policies. While this practice is apparently within statutory authority, we believe that the statute may be too broad. In addition, it is our opinion that some practices at WCFU are inappropriate. Specifically, the chairperson is not required to document hours worked and all board members are compensated for preparation time and other board related activities. Both of these practices are unusual, as is the hiring of current board members as consultants, which the WCFU has done in the past. Finally, we found some statutory inconsistencies which may require some policy clarification by the Legislature.

Workers' Compensation Executive Pay Practices are Comparatively Aggressive. In 1995, the CEO of WCFU received $142,894 in base salary and $226,294 in total compensation. The executives reporting directly to the CEO (the second-level executives) averaged $99,814 in base salary and $129,464 in total compensation. Both the base salary and the total compensation of these executives are high when compared to executive compensation in other similar organizations. Further, when factors which influence executive salary levels (i.e., organizational size factors) are considered, the executive salaries at WCFU are higher than expected for a quasi-governmental organization. The salaries may appear comparatively high because WCFU, in practice, is competitive at the 75th percentile in the national property and casualty insurance market. Executives at WCFU believe they need to be competitive at this level in order to recruit and retain the most qualified people and to reward outstanding performance.

Pay Practices at Utah Transit are Somewhat Aggressive. In 1996, the General Manager of UTA received $133,350 in base salary and $151,710 in total compensation. The second-level executives averaged $83,200 in base salary and $94,140 in total compensation. These salaries are higher than salaries in surrounding intermountain organizations and salaries in selected organizations. In addition, when factors that influence executive salary (i.e., organizational size and executive experience) are considered, lower salaries are expected for both the General Manager and the second-level executives. In setting its executive salaries, UTA uses both regional private market data as well as data from selected transit organizations.

Utah Retirement's Compensation Practices Appear Comparatively Moderate. In 1996, the Executive Director of URS received $94,370 in base and total compensation. The Deputy Director received $80,993 in base and total compensation. When compared to some retirement systems, the URS executives' salaries are low. However, in some of the comparisons, URS's organizational size is not comparable with that of the other retirement systems. When factors that influence executive salary size (i.e., organizational size factors and executive experience) are specifically considered, the executive salaries at URS appear reasonable. URS's compensation practices are comparatively moderate because the URS has chosen to closely follow Utah state government compensation practices.

Utah Housing Finance Agency Compensation is Comparatively Moderate. The Executive Director of UHFA received $93,351 in base salary and $95,851 in total compensation in 1996. The Deputy Director received $73,099 in base and total compensation in 1996. From our analyses we found that the total compensation for the UHFA Executive Director is similar to intermountain states' housing agencies and quasi-governmental agencies we surveyed, but below selected housing agencies of like size and organizational structure. The Deputy Director's salary is most similar to the intermountain housing agency markets. We also performed statistical tests on our data and determined that total compensation for the UHFA executives is justified by the agency size and the executive's years of experience. Because the Utah Housing Finance Agency salary policy is guided by the State of Utah Pay Plan, executive compensations are comparatively moderate.

Recommendations. The markets with which an organization compares have a significant effect upon the level of executive compensation. This report clearly demonstrates that vastly different compensation amounts are being paid to the three quasi-governmental organizations and the one special district reviewed. However, before considering any specific compensation policies for quasi-governmental organizations, the Legislature first needs to determine if it wants quasi-governmental organizations to operate more like private industry.

Chapter I
Introduction

At your request, we have completed our review of compensation practices within three quasi-governmental organizations and one special district. Overall, we found significant compensation practice differences among the four organizations we reviewed. First, executive board compensation practices are significantly different among the four organizations. Second, the executive compensation practices at the Workers' Compensation Fund of Utah (WCFU) are comparatively aggressive. Third, the Utah Transit Authority (UTA) is somewhat aggressive in their executive compensation practices. Fourth, the Utah Retirement Systems' (URS) executive compensation practices are relatively moderate, as are the executive compensation practices at the Utah Housing Finance Agency (UHFA). The markets to which organizations choose to compare have a significant impact on executive compensation. The Legislature may want to provide some direction to quasi-governmental organizations regarding appropriate comparison markets.

We were asked to review the executive and board member compensation practices for a sample of quasi-governmental organizations and to compare those practices with those of similar governmental organizations. A quasi-governmental organization is one that is legally separate from the State but to which the Governor appoints a voting majority of the organization's governing board. In this report, we generically refer to WCFU, URS, and UHFA as *quasi-governmental* organizations, but we recognize that they are not identical in their make-up. The enabling legislation for each of these organizations classifies them differently. Namely, the WCFU is a quasi-public corporation, and the URS and the UHFA are independent state agencies. The state auditor recently reviewed these organizations and has used the term *quasi-governmental* organizations to refer to the organizations both singularly or collectively. The Legislature has also accepted this term (quasi-governmental organizations), as is demonstrated from the language used by our requestors. Consequently, for simplicity, we will refer to them as such in the following chapters. In contrast, the UTA is an independent special district and will be referred to as such in this report.

In conducting this review, we were specifically directed to review the Workers' Compensation Fund of Utah and the Utah Transit Authority compensation practices. Since the focus of this review was upon quasi-governmental organizations, we added the Utah Retirement System and the Utah Housing Finance Agency. These two organizations were added because they were of reasonable size and had a reasonable history of salary information. Time constraints prevented us from reviewing additional quasi-governmental organizations.

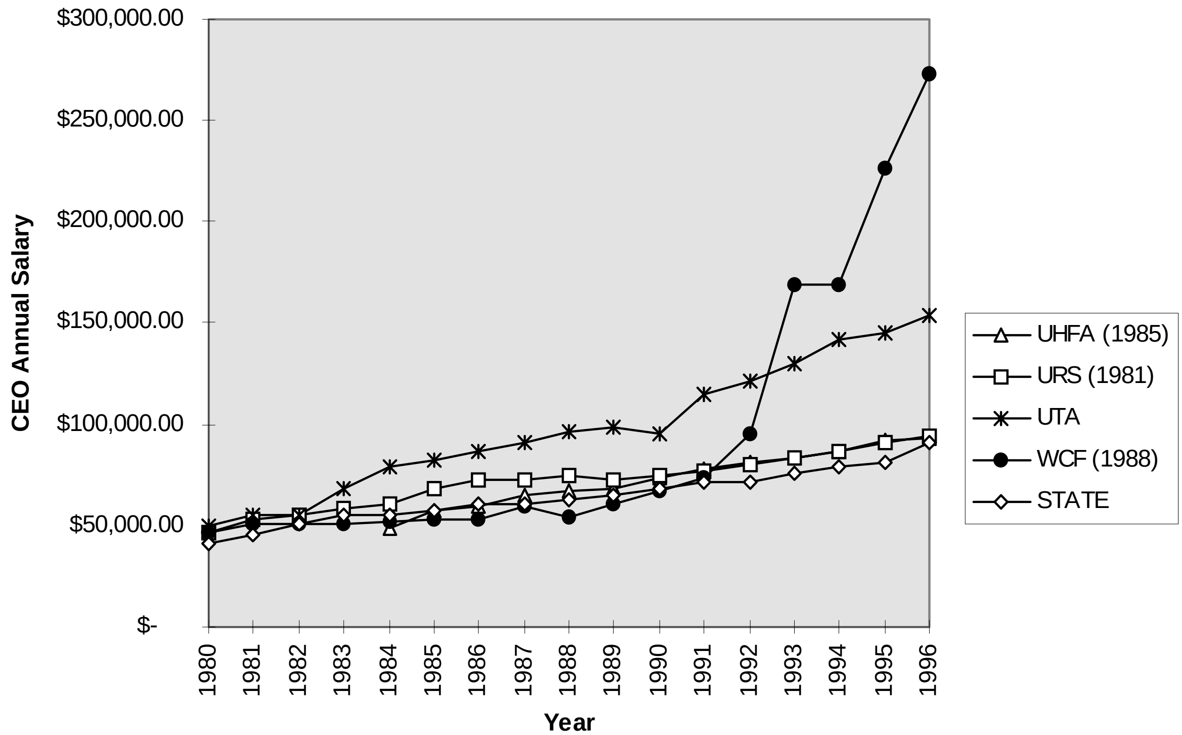
Our first step in examining executive compensation was to analyze the historical salary trends for each of the four organizations. We were interested in how each organization's trend behaved over time and how each trend compared with the state government's salary trend.

Analysis of Historical Executive Salary Trends

The four organizations show differences in their historical salary trends. Utah Retirement's and Utah Housing Finance's executive salaries have kept pace with state salaries. Utah Transit's salaries, on the other hand, have been increasing faster than state salaries since 1983. Workers' Compensation salaries kept pace with state increases until 1992. At that time, Workers' Compensation salaries showed a significant increase relative to state salaries.

Sixteen years of chief executive officer (CEO) salary data were collected for all four organizations. We compiled these data from the organizations themselves, from Division of Finance payroll records, as well as from the Utah Foundation's annual reports dating back to 1980. Three of the four organizations were formerly housed within the state system before achieving quasi-governmental status. The Utah Transit Authority is the only organization never to have been under state auspices. We have included, as a baseline, averaged data for the same period on executive directors of the largest (level E5) departments in the State of Utah. We chose to use level E5 department data for its consistency and as a barometer for salary increases in state executive positions. By including the state as a baseline, we intend to show an historical picture of where each organization's CEOs' salaries were within the state system, and the trends in CEO compensation since their status changed to quasi-governmental. The date when each organization left the state is shown in the legend below. Figure I illustrates how CEO salaries have changed over time.

Figure I
Compensation Trends for Four Organizations and State Executives 1980-1996



As Figure I shows, the four organizations examined vary in their compensation trends over time. Two of the four organizations, Utah Housing Finance and Utah Retirement, mirror the state's executive directors' increases very closely. Utah Transit, having never been part of the state system, shows steady salary increases since 1983 at a higher rate than those given to state executives. Finally, in 1992, Workers' Compensation shows a marked departure from state salary trends.

Workers' Compensation and the Utah Retirement System were clustered in the $50,000 range with the state executives' positions in 1980. In 1984, the first year of salary data available for Utah Housing Finance, they were also clustered with the above organizations. The Utah Retirement System and the Utah Housing Finance Agency became quasi-governmental in 1981 and 1985, respectively. In spite of becoming quasi-governmental, the two organizations' CEOs' salaries have remained closely parallel to state salary increases for executive directors of large departments. Utah Housing Finance has chosen voluntarily to parallel the state. According to URS sources, Utah Retirement has felt pressure to parallel the state pay plan as a result of a 1989 legislative audit criticizing salary levels.

On the other hand, the Worker's Compensation Fund has shown a dramatic salary increase since becoming quasi-governmental in 1988. Prior to this time, WCFU mirrored the state increases. However, this organization did not have its own compensation system in place until about 1990. In 1992, Workers' Compensation changed management teams and executive salaries made a clear departure from the state trend. Since 1992, this climb has not slackened except for one year where no increases were given. Utah Transit Authority's executive salaries, although never part of the state, started out similarly but have steadily increased at a greater rate than those of the state.

In addition to a graphical representation, we analyzed the percentage change in total compensation from a specific point. The following figure shows the average yearly compensation increases since 1990. Total compensation includes salary, bonuses, car allowances and personal use of a car, if applicable.

Figure II
Annual Compensation Increases for Chief Executives
Since 1990

Organization	Average Yearly % Increase	Average Yearly $ Increase
URS	3.9%	$ 3,248
UHFA	4.4%	3,650
WCFU	26.3%	34,353
UTA	8.2%	9,641
State of Utah (averaged)	**4.9%**	**3,814**

As Figure II illustrates, each organization has increased at a different rate since 1990 and this may be explained in part by the market with which each organization identifies. For example, the Utah Housing Finance Agency still follows the state pay plan for merit and cost of living increases, which helps to explain their rather conservative average yearly increase. Since achieving quasi-governmental status in 1985, the UHFA has stayed close to the increases the state paid to executive directors of large departments and since 1990 has experienced an average annual increase of 4.4 percent. As a result, UHFA salaries have increased overall 29 percent since 1990. Similarly, executive salaries at Utah Retirement Systems have increased 3.9 percent annually, resulting in an overall salary increase of 26 percent since 1990. On the other hand, the Utah Transit Authority identifies with the national marketplace of similar-sized transit carriers as well as to regional and state private-sector market data. Salary increases for the General Manager reflect this. Specifically, the General Manager's salary at UTA has increased 8.2 percent annually, which has resulted in a 60 percent overall salary increase since 1990. Finally, the Workers Compensation Fund also does not identify state government as its comparison market, but rather looks to national and Utah private-sector market companies for comparison. The Workers' Compensation increase is undoubtedly the most significant of the four organizations, with an annual salary increase of 26.3 percent, resulting in an overall increase in executive compensation of 306 percent between 1990 and 1996. WCFU executives believe these increases were necessary to make them comparable to private industry.

As will be seen in the following chapters, an organization's choice of comparison markets is critical. Workers' Compensation compares with national property and casualty insurance companies and with Utah private-sector market data, Utah Transit compares with regional transit data and private-sector market data, while Utah Retirement and the Utah Housing Finance Agency compare with state government market data. Each quasi-governmental organization chooses its comparison market based on factors such as size, nature and political structure of the organizations within the market. These different market choices significantly affect the salaries and total compensation that the organizations award their executives.

The three quasi-governmental organizations as well as the Utah Transit Authority have the freedom to choose whatever markets they would like to use in comparison. Workers' Compensation has been the most aggressive of the four organizations by choosing a national and a statewide private comparison market. Other quasi-governmental organizations have the freedom to make this choice as well, and one quasi-governmental organization has expressed a desire to move away from a state government market comparison. It is possible that, based on the information presented in this report, the Legislature may want to give policy guidance regarding compensation issues to quasi-governmental organizations. However, before doing this, the Legislature needs to determine if it wants quasi-governmental organizations to operate more like private companies or like state government operations.

Currently, quasi-governmental organizations are like private organizations in some ways. Specifically, the executive board of each quasi-governmental organization, rather than the state, is the controlling body of the organization. As a result, these organizations are exempt from many legislative statutes (e.g., the procurement code, the personnel management act) that state agencies must follow. It was thought that by removing these organizations from direct state control, the state would have less liability should the organization fail. However, in the case of the thrifts, this was found not necessarily to be true. Further, under this scenario, the state also has less control over the actions of the organization. If the Legislature wants more control over the actions of the quasi-governmental organizations (i.e., control over compensation issues), then more policies directing their actions would be appropriate. However, by enacting more statutory policies, the Legislature would be acting to make quasi-governmental organizations more like state government agencies. Thus, while more control would be gained, more state liability would also be gained.

Methodology

The data presented in the following chapters are our best attempt to illustrate executive compensation practices for the quasi-governmental organizations and their corresponding markets. We realize, however, that there may be limitations to the data we have collected. We relied primarily on compensation data voluntarily given to us by human resource personnel within our survey organizations and by state regulatory departments (i.e., Departments of Insurance). Given the nature of these data, we had no source of independent compensation verification; however, we have no reason to believe that these data are inaccurate.

In analyzing these compensation data, we did not match position descriptions; instead, we matched position reporting levels. As a result, CEO's, as the first level of responsibility, are always matched only to each other. While the duties of the CEO's may differ, one fact remains constant: the CEO is ultimately responsible for the performance of the organization. In addition to analyzing CEO compensation, we also analyzed compensation at the second-level of responsibility. A second-level position is one that reports directly to the CEO. In making these comparisons, we combined the compensation of all positions that report directly to the CEO and reported them as one average salary. We did this because we did not always have enough matches on a specific position to make a reasonable comparison of salaries. We feel comfortable with this approach since it was not the goal of this report to make specific salary recommendations for specific positions. Further, salaries of second-level positions tended, in most cases, to be very close to each other.

One of the primary purposes of this report is to demonstrate compensation levels in different markets. In order to do this, we collected data from organizations in at least 12 states performing the same function as the review organization. Once these data were collected, they were divided into market data. For all four organizations reviewed in this report, the intermountain market and the selected market are presented. The intermountain market is made up of the states surrounding Utah and is presented to give the Legislature an idea of what neighboring states are compensating their executive positions. The selected market is made up of organizations to which the organization under review believes a valid salary comparison can be made. In addition to these two markets, three other markets were also presented if appropriate. First, the quasi-governmental market was shown. This market is made up of all survey organizations that have a quasi-governmental structure. Second, the state-run market was shown. This market is made up of all survey organizations that are state agencies. Third, the private, non-profit market is shown. This is made up of organizations that perform the same function as the organization under review but are private and not-for-profit in structure. In addition to data from other states, we also collected private-sector market data from Utah companies.

As a final part of our review, Dr. David Cherrington, a professor of Organizational Behavior at Brigham Young University and our consultant on this audit, performed a regression analysis on the compensation data gathered from the 12 or more states. A regression analysis is a statistical method of predicting the value of one variable from other known, related variables.

Based on what other research on executive compensation had found, it was his hypothesis that CEO compensation is strongly related to organizational size, and/or the varying experience and educational levels of the CEO's. If a relationship could be found, an expected salary could be determined based on those factors found to have a significant relationship with CEO salary. This expected salary could be compared to the actual salary as a measure of reasonableness. Not only did Dr. Cherrington help us with this aspect of our review, he also assisted us in gathering appropriate data and making comparisons among positions.

It should also be noted that this audit was performed with assistance from the State Auditor's Office. The State Auditor was very interested in the issue of quasi-governmental organizations and, as a result, agreed to supply a staff person to help in the collection and analysis of audit work. This staff person was primarily responsible for the analysis concerning the UTA.

Audit Scope and Objectives

This audit was requested to review the executive and board member compensation practices for a sample of quasi-governmental organizations. In conducting this audit, we were asked to compare the salaries paid by quasi-governmental organizations with those paid by similar government organizations. Further, it was specifically requested that the Workers' Compensation Fund of Utah and the Utah Transit Authority be included in our review. In addition to these two organizations, we added Utah Retirement Systems and Utah Housing Finance Agency to our review. Time constraints prevented us from reviewing additional quasi-governmental organizations. We did not limit ourselves to the market of similar government organizations. Instead we provided information on many markets to help illustrate the difference in various markets' compensation and to help in determining what might be the most appropriate comparison market to use.

Specifically, our audit objectives were to:

- Identify and compare board member compensation practices.
- Identify and compare executive level compensation practices.

The analysis of board of directors' compensation practices is presented in Chapter II. Chapters III through VI contain the market analysis for Workers' Compensation, Utah Transit Authority, Utah Retirement Systems, and Utah Housing Finance Agency, respectively. Chapter VII outlines our recommendations.

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Chapter II
Board of Director Compensation Policies Show Wide Variance

Board of directors' compensation policies for the four organizations demonstrate wide variations regarding how much is reimbursed to board members and practices relating to board member compensation. We collected data on board compensation (also called per diem or director's fees) for Workers' Compensation Fund of Utah (WCFU), Utah Retirement Systems (URS), Utah Transit Authority (UTA), and Utah Housing Finance Agency (UHFA). Overall, the policies as well as the amounts compensated to the boards vary significantly. The statute governing the setting of per diem may be broader than the Legislature intended, which is one possible explanation for why there are variations in per diem amounts.

It is our opinion that some practices at Workers' Compensation Fund are not appropriate, namely, the chairperson is not required to document hours worked and all board members are compensated for preparation time and other board-related activities. Both of these practices are unusual in a government setting, as is the hiring of board members as consultants, which the WCFU has done in the past. Finally, we found some statutory inconsistencies relating to *ex officio* member compensation that require clarification. In addition, some terminology contained in the **Utah Code** is not adequately defined, which is the source of some confusion in the board statutes.

Board Compensation Differs Significantly

Board members and chairpersons for the four boards of directors receive significantly different compensations for the duties they perform. We examined organization documentation that showed expenses charged for board meeting attendance and other compensable items such as mileage, hours of work on assignments, meals, and lodging. Typically, these and other organizations reimburse board members for mileage and personal expenses, and pay members a per diem for meeting attendance. However, Workers' Compensation Fund has significantly departed from this standard. In particular, the WCFU pays their chairperson and members differently, as opposed to the three other boards who do not differentiate between chairperson and member compensation. Also, the WCFU has re-written its board compensation policy four times in the last nine years, and gained approval from the Division of Finance. Although this practice is apparently within statutory authority, we believe that the statute, as written, may be too broad.

Per Diem Rates Show Significant Variations

Board per diem rates between the four organizations vary significantly. Our primary concern is the wide variance in per diem rates and different directions that the organizations seem to be taking in terms of board chairperson and member compensation. The state board and commissions compensation guidelines developed by the Division of Finance set the standard board meeting per diem rate at $60 for attending a single meeting that lasts four hours or less. If the meeting runs longer than four hours, the per diem for attending is $90 instead of $60. Currently, only one organization follows these rate guidelines. Two of the organizations we examined have been exempted from these rate guidelines, and the other organization has its own rate written in statute. Figure III identifies the amounts each board chairperson receives for attending board meetings. In addition, Figure III shows the total compensation received by these individuals for meetings and other compensable items compiled from IRS 1099 forms for calendar year 1996.

Figure III
Compensation for Chairpersons
of Boards of Directors
Calendar Year 1996

Organization	Meeting Per diem	1996 Total Per diem	Other Expenses	Total Compensation
WCFU	$1,300/month*	$15,600	-0-	$15,600
URS	$125/meeting	3,125	-0-	3,125
UTA	$25/meeting	900	$ 896	1,796
UHFA	-0-**	-0-	-0-	-0-

** The WCFU Chairperson is paid a lump sum of $1,300 per month, instead of a per diem for each meeting as are the other chairpersons. This amount divides out as $65 per hour at 20 hours per month.*
*** The UHFA Chairperson is an ex officio member.*

As seen above, the amounts that each chairperson claims for board meetings vary, as does the total compensation for the year. Most notable is the WCFU board chairperson per diem, which far exceeds that of all other chairpersons. The other three organizations are also compensating their chairpersons at different rates, but at a much lower yearly compensation than WCFU. These figures do not necessarily represent the maximum amounts that individual chairpersons can claim, rather we have reported actual per diem amounts for 1996. Figure IV summarizes the board member meeting per diems for each of the four organization boards.

The number after each organization acronym represents the number of board members, excluding the chairperson.

Figure IV
Compensation for Board Members (excluding chairpersons)
Calendar Year 1996

Organization	Rate	Lowest Paid Board Member*	Highest Paid Board Member	Average Board Member Compensation
WCFU (6 members)	$ 65/hour	$2,568	$5,623	$4,870
URS (6 members)	$125/meeting	2,250	3,250	2,875
UTA (15 members)	$25/meeting	200	925	844
UHFA (8 members)	$60/meeting	360	480	420

** WCFU and UHFA ex officio board members receive no per diem and have not been included in these figures or the average. UTA does not have any ex officio members. URS has one ex officio member who received per diem and therefore is included in these figures. Discussion on this point follows.*

These figures include board meeting per diem and other expenses such as travel and lodging reimbursement and other personal items for which members were compensated in 1996. In Figure IV, the data indicates that all members do not attend all meetings. For example, the UHFA's highest paid member had attended eight board meetings in order to receive $480 and the lowest attended six meetings and received $360. Likewise, the other organizations' records indicated that even the highest paid board members had not attended all possible meetings. Like Figure III, Figure IV shows the highest amount that board members actually received for attending meetings in 1996, rather than the maximum amounts of per diem a board member could receive. The following sections of this chapter will analyze these figures by organization, in order to illustrate the variations that exist among board compensation policies.

Workers' Compensation Fund. The WCFU has the most liberal compensation policy for board service of the four organizations we examined. The WCFU Chairperson of the Board of Directors is reimbursed $1,300 per month, or $15,600 per year for board meetings and for his service to the board, which is almost five times more than the next highest paid organization chairperson. This sum is based on the assumption that the WCFU Chairperson will work 20 hours per month at the rate of $65.00 per hour on board issues and in meeting attendance, and does not include mileage. Although it is assumed that the chairperson works 20 hours per month, he is not required to provide documentation supporting the time spent.

The WCFU compensates its six board members at the hourly rate of $65, instead of a per diem for meeting attendance as the Division of Finance has outlined. In addition, board members are reimbursed 31 cents per mile for travel. These rates apply to regular board meetings, as well as executive committee and sub-committee meetings, which meet approximately 16 times a year. There is a five hour per day maximum reimbursement cap on this rate, however we found some minor violations where members claimed more than five hours in one day. Unlike the chairperson, the WCFU board members must document their time and attend meetings in order to receive payment. The highest paid WCFU board member received $5,623 and the lowest received $2,568 for meeting attendance in 1996. These figures do not include mileage. Of the four organizations, the WCFU board has the highest compensation per board member.

Utah Transit Authority. The UTA board compensation policy is conservative when compared to other organizations. The **Utah Code** (17A-2-1038), outlines the UTA board members' per diem as $25 per board or committee meeting attended, not to exceed $75 in any calendar month. The 13 UTA board members receive the same per diem and reimbursement as the chairperson. The UTA board members and chairperson must be in attendance at board meetings to receive the per diem. In 1996, the chairperson received $900 for attending board meetings. Upon reviewing board minutes and other documentation, we found that the UTA Chairperson did indeed attend all of these meetings for which he was reimbursed. The highest paid board member in 1996 received $900 for meeting attendance and the lowest received $200, however this individual only served for part of the year.

Utah Retirement Systems. The URS Board of Directors is exempt from the guidelines established by the Division of Finance. The URS Chairperson of the Board receives $125 for each board meeting attended, as do the board members. Typically there are six or seven board meetings per month, but the chairperson and members can only be reimbursed for a maximum of three meetings per month for a total of $375 per month. In 1996, the URS Chairperson received $3,125 for his attendance at 25 board and/or committee meetings. The highest and lowest board member compensation for meeting attendance in 1996 were $3,250 and $2,250, respectively. The chairperson of URS's board is elected by the members each year so the position rotates among the members. As with UTA, the URS board members must be in attendance to receive meeting per diem. One member, the State Treasurer, is an *ex officio* member who has received per diem for at least the past five years. This treatment of an *ex officio* member differs from other organizations and will be discussed later in this chapter.

Utah Housing Finance Agency. The UHFA is the only organization in our examination that follows the board compensation standards established by the Division of Finance. The current chairperson receives no reimbursement for his service to the board because he is an *ex officio* member. According to the **Utah Code**, three of the nine-member board are *ex officio* members who also hold state office, namely the Executive Director of the Department of Community and Economic Development (DCED) who currently serves as the chairperson, the Commissioner of the Department of Financial Institutions, and the State Treasurer. These three members have full voting privileges. The other members of the UHFA board receive $60 per meeting, as outlined by the Division of Finance guidelines and there are approximately 12 meetings per year. The highest paid member received $480 for meetings in 1996, while the lowest paid member received $360 for the same year. Relative to other organizations, the UHFA board receives a modest compensation for their service.

Basis for Chairperson and Member Per Diem Should be Similar

Board member compensation for three of the four organizations is identical to the policies set forth for board chairpersons. The exception is the Workers Compensation Fund, which compensates the board members differently from the board chairperson. The WCFU Chairperson receives a set amount of $1,300 per month, and is not required to document the time spent. The board members, on the other hand, receive compensation on an hourly basis for the board meetings and other business that they can document. In comparison, the WCFU board members receive considerably less in compensation for board service than the chairperson. In 1995, the chairperson received $15,600 for board service, while the next highest paid board member received $5,655 or about 64 percent less. The other organizations compensate the chairperson on the same basis as the regular members. The chairperson and board members are compensated a set amount for official meetings attended and other personal expenses such as mileage or travel.

For comparison, we contacted other state Workers' Compensation Funds to determine what their boards are paid. Only two of the seven organizations contacted pays their board chairperson differently than their board members. One organization pays a yearly amount of $5,000 to the members and $7,500 to the chairperson. The other organization pays $500 per month to the board members and $1,000 per month to the chairperson. It should be noted that this latter organization is private, non-profit and not quasi-governmental. However, even these two organizations compensated the board members similarly to the chairperson in that a set amount was given to both, not an hourly rate for one and a set amount for the other. The remaining five organizations we examined did not differentiate between the chairperson and the board members.

The WCFU justifies paying the chairperson more because they feel that he puts in more hours than the other members. We were not able to document this assertion because the chairperson does not keep track of his hours. The board members, however, do keep track of their hours and we found that generally the members claim about 30 minutes for preparation time before each meeting. The board members also claim time devoted to board related activities such as phone calls and legislative meetings. We recognize that the chairperson has

more responsibility and time invested in his board position; however, we assert that board compensation for all members should have a similar basis and not resemble a salary, per se.

Board Rate-setting Authority may be too Broad

Over the past nine years, the WCFU Board of Directors has re-written its board compensation policy four times. The WCFU was exempted from following the Division of Finance guidelines for boards and commissions in 1988 by the former Director of the Division of Finance. This exemption has resulted in current board reimbursement rates that significantly exceed compensation rates of the other three boards we examined. According to state statute, the Director of Finance is given authority to *"establish per diem rates for all state officers and employees of the executive branch...to meet subsistence expenses for attendance at official meetings* " (**Utah Code 63A-3-106**). Although the Division of Finance has established standard per diem rates for boards of state government, two of the organizations have deviated from these standards and have gained approval from the division to increase board per diems for their organization.

Under this statute, the Director of Finance seemingly has broad authority to establish separate rates for different organizations. Because of this, the WCFU has asked for approval to increase board per diem four times. Currently, the state board and commission per diem is set at $60 for each official board meeting, and $90 for meetings that are more than four hours in length. But, in 1988 the WCFU board requested and received approval to implement a $100 per diem for board meetings and $150 for meetings exceeding four hours. Then in 1990, the WCFU board requested to change that policy to a $50 per hour rate for meetings with a maximum daily rate of $250. Again in 1991, the board requested that this $50 per hour fee be broadened to cover preparation time and other board activities. Finally in 1994, the WCFU board asked for an increase in the hourly rate from $50 to $65 for meetings, preparation time and other board related activities. All of these requests were approved by the Division of Finance.

The WCFU contends that these changes in board compensation reflect the private market with which they are trying to keep pace. The WCFU is fearful that it will be difficult to attract qualified individuals to serve on the board unless a more remunerative compensation is offered. However, from information we obtained from other state workers' compensation funds, most of these organizations seem to compensate at a more modest rate. For example, we looked at five workers' compensation funds that are classified as quasi-governmental, where the highest paid compensation was $5,000 per year, or about $416 per month. The lowest compensation was a board that did not receive payment for their services. Another fund we contacted compensates their board members at $500 per month and their board chairperson at $1,000 per month, however, this organization is private, with no ties to state government.

The URS has also been granted an exemption from following the Division of Finance guidelines. However, the URS statute is vague as to what guidelines the board follows concerning compensation of board members. It states that "*each member shall receive a per diem plus travel expenses provided by law for attending meetings*" (**Utah Code 49-1-201(5)**). This language does not clarify what law is to be followed, nor does it specify that the URS must follow the administrative rule guidelines for boards and commissions. The URS compensates each members $125 for each meeting attended, however it is unclear how this policy was developed, or what law the URS is following.

Although in comparison, the WCFU rates are high, the issue we address here is the latitude that the Division of Finance has under statute, to set board per diem rates. We are concerned that organizations can continually increase per diem rates by petitioning the Director of Finance. It is not clear whether the Legislature intended for the Division of Finance to have authority to grant exemptions to the state board guidelines. Because WCFU and URS have been exempted from following the division's rates, there is an inherent inconsistency in board member compensation. We assert that board member compensation policies for quasi-governmental organizations should be more congruous, and recommend that the Legislature consider reviewing this statute and consider whether or not it is broader than intended. We contend that the WCFU and URS should follow the Division of Finance guidelines as identified in **Administrative Rule 25-5**, until the Legislature has made a decision concerning these issues.

Some WCFU Practices are Inappropriate

The Workers' Compensation Fund board demonstrates some practices that are inappropriate. First, the WCFU does not require that the chairperson of the board document the hours for which he is paid. A related issue is that the WCFU board chairperson and members can claim preparation hours prior to board meetings, as well as other board activities, and are paid for this time. From the other boards we examined, this seems to be an unusual practice. Finally, we found that there are two instances where the WCFU board solicited a board member to do consulting work for the board. This practice may create a conflict of interest and should be avoided.

All Board Members Should Document Their Time

As a standard business practice, all board members should be required to document the time they contribute to board service if they are receiving an hourly rate. However, the WCFU does not require the Chairperson of the Board to document his time in order to be paid. Currently, the chairperson receives $1,300 per month for his services under WCFU's assumption that he works 20 hours per month at an hourly rate of $65. Other board members

also receive $65 per hour, but are required to submit documentation of hours worked in order to receive the appropriate compensation.

From WCFU documents, we observed that the chairperson formerly documented his hours and mileage. In 1991 he claimed as little as $200 per month for meeting and preparation hours and as much as $1,650 for the same. These amounts do not include mileage or personal expense reimbursements which the chairperson was also documenting. However, he discontinued the practice of documenting his hours and mileage in early 1992. At this point the WCFU began making the assumption that the chairperson was devoting 20 hours per month to board work. From March of 1992 until mid-1994, he has received $1,000 per month with no supporting documentation or explanation, other than the assumed 20 hours of work. The WCFU board rate changed from $50 to $65 per hour in July of 1994, and now the chairperson is paid $1,300 per month.

From board meeting minutes, we calculated the hours that the chairperson spent in official board meetings and found that only 12 percent of his monthly pay can be attributed to these meetings. There is no documentation to explain how the remaining 88 percent of the assumed time worked is spent. We also reviewed time documentation from 1992 through 1996 for WCFU board members which showed that they are tracking hours spent on board meetings, preparation time, luncheons or other board related activities. Like the board members, it is logical to assume that the chairperson is also spending time on board business, but without an hourly work log, we are unable to determine if this is an accurate assumption. In addition, the board members document their mileage and other expenses for reimbursement whereas the chairperson does not.

We contend that as a sound business practice, all board member should document their time, mileage and expenses for reimbursement when paid on an hourly basis. In the WCFU's case, conscientious documentation is even more important because the board is paid on an hourly basis for meetings and other board related activities. The other organizations we examined pay a flat per diem for official board meeting attendance only, and there are not opportunities to charge for preparation time or even committee work. Because of this, the WCFU should insist that all board members, including the chairperson, keep and submit an hourly log in order to receive board compensation.

Preparation Time Compensation Should be Reconsidered

The WCFU pays an hourly rate to board members for preparation time and other time related to board work in addition to official board meeting hours. The WCFU contends paying board members on an hourly basis is in line with private industry practices. The other three boards we examined only compensate the members for official board meetings, which is in harmony with the Division of Finance rate guidelines which outline a per diem amount for official board meeting attendance. We also contacted seven similar organizations, none of which allow board members to charge preparation time. Because none of these 11 boards compensate the members for anything beyond official board meetings, we are concerned that the WCFU allows board members to be paid for preparation time and other board business.

As a test, we reviewed and documented the official board meetings of WCFU for 1993. Looking specifically at the chairperson, we calculated from board minutes, the time he spent in general board meetings and executive committee meetings. In 1993 the total time the chairperson spent in these meetings was 31 hours and the WCFU hourly rate was $50, for a total of $1,550. The WCFU documentation of meeting fees paid for 1993 show that the chairperson received $13,000 for that year. Consequently, the board meeting hours represent about 12 percent of the time that the chairperson was paid for in 1993. The remaining 88 percent of the time is undocumented; however, past billings indicate this is time spent for preparation of board meetings, telephone conversations, legislative meetings, luncheon meetings and other contacts. Although all the time spent seems to relate to board business, we are concerned with both the practice and the extent of the time charged. None of the other board chairpersons charge for preparation time or other telephone conversations. In fact, WCFU is the only board that pays members for meetings other than general board meetings. In addition, the fact that 88 percent of the chairperson's compensation is for time other than board meetings is unusual and also concerns us.

The WCFU contends that the issues that are addressed by the board are complex and require serious attention prior to meetings so that members are prepared to make decisions at the meetings. For this reason the WCFU pays board members for preparation time. We do not disagree with or discount this contention, however, from our discussions with the other three organizations, we found that they also require board members to come to meetings prepared and well-versed on complex issues without paying for preparation time. The UTA board receives a large packet of materials before their meetings and members are expected to arrive prepared to make decisions involving real estate transactions and other transit issues. The Executive Director of the UHFA prepares packets of information for official board meetings that contain detailed financial data and reports that require hours of study in order to gain a general understanding of the issues. The URS likewise reported that board members are given packets of information before meetings and are expected to arrive at board meetings prepared to make decisions. All of these organizations deal with difficult and often intricate matters that demand adequate preparation time from board members.

We believe that the practice of compensating board members for preparation time is questionable and seemingly lacks any controls. From our examination, WCFU board members are allowed to be compensated for an unlimited list of activities that deal with board business, some of which do not technically require preparation time. The other three boards we examined do not allow for preparation time compensation, and the Division of Finance rate guidelines for boards and commissions do not classify this time as compensable either. It is our opinion that the WCFU should follow the Division of Finance guidelines in this matter by only allowing compensation for official board meetings attended.

Consultants Should be Chosen Outside of Board Membership

The Worker's Compensation Fund paid two board members for consulting work they performed for the board. The WCFU board solicited a board member for investment consulting work which resulted in the member being paid $6,000 in 1994. This individual did not participate in the selection process and promptly resigned from the board when the consulting contract was awarded to him. Still, he was solicited by the WCFU through a Request for Proposal when he was still an active member of the board. According to a current board member, this board member was solicited because it was known that he was soon going to be leaving the board for another appointment.

Another WCFU board member, acting as the chairperson of the Investment Subcommittee, charged 26.5 consulting hours plus expenses for reviewing WCFU real estate investments for a total of $2,257 in 1996. This individual was and is currently an active board member. In addition, he was reimbursed $2,550 for miscellaneous investment matters, a luncheon meeting, and a telephone meeting. It should be noted that these reimbursements represent hourly charges, not personal expenses such as phone charges or meal expenses. The WCFU reimbursement information we received showed that this board member received a total of $7,588.75 in reimbursement and compensation in 1996, per the IRS 1099 forms we received from Workers Compensation Fund.

These instances present a potential conflict of interest where board members are solicited to do consulting work for the board of which they are members. Presently, there are no statutes that prohibit this practice. The Utah Public Officers' and Employees' Ethics Act alludes to conflict of interest problems but does not directly address this issue. We assert that contracting with board members is questionable as a business practice in that the board may not receive the most cost-effective work possible. Further, this practice also could lead to favoritism. Individual board members who want consulting work could influence other members, with whom they have developed a relationship, to support these contracts. Board members, as consultants, stand to benefit from receiving consulting contracts. In addition, soliciting within the board could eliminate other consultants from consideration who may have more effective and less costly services to offer. Board members make important decisions that affect the organization and should have at their command the best information possible. Contracting with a co-board member could make it difficult to objectively evaluate the resulting work, as well as lead to poor choices for the organization as a whole.

The Workers' Compensation Fund contends that these practices are common in private industry where board members are paid as consultants for work performed on behalf of the organization. However, these practices do not occur in the realm of state government. In addition, the WCFU board has members from businesses that are service and product providers to WCFU, besides being customers of WCFU. We see a potential conflict in this practice where WCFU is contracting with a business for services, while a member who is an officer or employee of that business sits on the WCFU board. Although the WCFU has a conflict of interest disclosure policy, we feel that WCFU ought not enter into contracts with businesses or individuals whose officers or employees are currently sitting on the board. The exception to this is normal program participants who could serve as board members without this potential conflict. Legislation prohibiting similar circumstances was passed in the 1997 session. This law disallows board members, officers or employees of public transit districts from having any interest *...in any contract or in the profits derived from any contract...* that is awarded by the board, the officer or the employee (**Utah Code** 17A-2-1050). Additionally, the Utah Public Officers' and Employees' Ethics Act seems to limit this activity, as well. In view of the stance that the Legislature has taken on this issue, we recommend that the Workers' Compensation Fund adopt similar practices by not contracting with businesses as vendors, during the time that an officer or employee of that business is serving on the board, with the exception of normal program participants or policyholders.

Statutory Inconsistencies Require Policy Clarifications

In our examination of board statutes, we identified some inconsistencies in the treatment of *ex officio* board members and in compensation terminology. Both of these issues are in need of policy clarification. According to some statutes, *ex officio* board members should not receive additional board meeting per diem if they are being paid for their official board service through their regular government salaries. We found that one of the four organization's statutes does not preclude *ex officio* members from being paid board meeting per diem. Because of this inconsistency between statutes, a current *ex officio* member receives per diem from one organization, while another organization does not compensate him for his service. In addition, the terms *compensation* and *per diem* are never defined in statute, which causes confusion in the interpretation of the statutes.

Ex Officio Compensation Policies are Inconsistent

There are conflicting statutes governing the compensation of *ex officio* board members. Of the four organization boards examined, there are a total of five *ex officio* board members currently serving terms. The URS Board of Directors compensates all members for board attendance, including the sole *ex officio* member on the board. According to the URS statute **Utah Code** (49-1-202), *"each member shall receive a per diem plus travel expenses provided by law for attending board meetings."* The URS has correctly followed this statute and has paid *ex officio* and other members a per diem for board meeting attendance. This statute does not differentiate between *ex officio* and other board members; neither is there language to suggest that *ex officio* members should not receive per diem. In addition, the URS statute does not provide the option for board members to decline their board per diem. From URS data, we have documented that the State Treasurer, an *ex officio* board member, received board meeting per diem in the amount of $3,000 in 1996. We also reviewed IRS 1099 forms for a past *ex officio* board member who served on the URS board in 1985 and 1986 who also received per diem. This indicates that all *ex officio* members have received the compensation from URS, not just the State Treasurer.

Conversely, the UHFA does not compensate *ex officio* members for service to the board. According to statute, the UHFA is prohibited from paying its three *ex officio* board members, which includes the State Treasurer, any form of compensation for meeting attendance. The UHFA statute, **Utah Code (**9-4-904 (8)), governing board compensation outlines that state government officers and employees who are board members do not receive the per diem if they are already receiving salary compensation from their organization in the performance of their official agency duties. Members who are not government employees may receive per diem and expenses incurred in the performance of the member's official duties at the rates established by the Division of Finance (**Utah Code (**63A-3-106)). The UHFA has followed these statutes and has not paid meeting per diem to the Director of the Department of Community and Economic Development, the Commissioner of Financial Institutions, and the State Treasurer, the three *ex officio* members on the UHFA board.

Most government and quasi-governmental boards have language in their statutes similar to UHFA whereby *ex officio* board members are not paid for service. The WCFU lists the Director of the Department of Administrative Services and the CEO as *ex officio* board members and does not pay per diem for their service. The UTA is not involved in this issue because statutes regarding UTA's board composition preclude elected public office holders from serving on their board.

The State Treasurer is compensated for his service to numerous official boards by the salary that the Legislature fixes for his constitutional office. According to **Utah Code** 67-4-1 (12), the State Treasurer is statutorily required to perform certain duties, among which is *"to discharge the duties of a member of all official boards of which he is or may be made a member by the Constitution or by the laws of the state."* In other words, as State Treasurer, one official duty for which salary is paid is to participate in board activities, including meetings. We spoke with the State Treasurer about this issue, and he agreed that he has received per diem for meeting attendance at URS board meetings for the 16 years that he has held office. In addition, his predecessor also received the board per diem, and the issue of *ex officio* board member compensation has not been reviewed recently. The State Treasurer also acknowledged that the URS statute is being correctly followed, but is not consistent with the UHFA statute.

It is important to reiterate that both organizations are correctly following their respective statutes; however, in this case, the inconsistency between the statutes presents a policy question. Should state employees or officers, including elected officials, receive board meeting per diem? While most statutes preclude *ex officio* members from receiving per diem, some do not. We contend that *ex officio* members should not receive per diem if they are currently receiving compensation through their regular salaries. However, the Legislature may wish to clarify the *ex officio* compensation policy so that there is consistency in organization and other related statutes in the **Utah Code**.

Statutory Terminology is Inconsistent

Some statutory language concerning board compensation is incorrectly used. In examining the statutes of URS, UHFA, WCFU and the Division of Finance administrative rules, we found that the use of the terms *per diem* and *compensation* are not consistent. We discussed these inconsistencies with the Legislative General Counsel and with the State Accountant of the Division of Finance and found that the term *per diem* that is commonly used in all of the above statutes should more correctly be replaced with *compensation*. Definitionally, the term *per diem* refers to money that is reimbursed to an individual for daily costs such as meals. *Compensation,* on the other hand, refers to a salary or income that is paid to an individual for their attendance at a meeting.

Currently, these terms are not defined in statute. According to the State Accountant, what board members receive is considered *compensation,* not *per diem*, even though the statutes and the administrative rules call this payment a *per diem*. This money that is paid to board members is reported on IRS 1099 forms as taxable income by all four organizations. True per diem payments are not included on 1099's because they are considered a reimbursement of an expense, not income. Under current statute, all board members, including *ex officio* members, are entitled to per diem and reimbursement of other expenses, if applicable. We recommend that the Legislature clearly define the use of the terms *compensation* and *per diem* in statute to prevent confusion in statutory interpretation.

Conclusion

Generally, the board compensation policies for the four organizations seem within reason. However, the WCFU has departed from the state board rates through applications for rate increases. In addition, there are certain board practices at the WCFU that are inappropriate. Although all boards can not and should not be treated identically, we believe that there should be some consistency in board policy in that the members and chairperson should be compensated similarly, time documentation should be required of all members, and only time spent at official board meetings should be compensated. In addition, contracts and consulting relationships should more prudently be kept at arms length. Finally, we believe that *ex officio* board members should not receive compensation if they are being paid for their board service through their regular salaries. Nevertheless, the decision is up to the Legislature on how these board members are to be treated.

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Chapter III
Workers' Compensation's Executive Pay Practices are Comparatively Aggressive

Executive pay practices at the Workers' Compensation Fund of Utah (WCFU) are aggressive when compared to similar quasi-governmental organizations in other states. Both the base salary and the total compensation of the CEO and the executives who report directly to the CEO (the second-level executives) are high when compared to executive compensation in other similar organizations. When compared to Utah's private market, WCFU's executive compensation appears more comparable, however WCFU is not a private organization. Further, when factors which influence executive salary levels (i.e., organizational size factors) are considered, the executive salaries at WCFU are higher than expected. Total compensation may appear comparatively high because WCFU is competitive at the 75th percentile of the national property and casualty market. Executives and board members at WCFU believe they need to compensate at this level to reward outstanding performance.

The 1988 recodification of **Utah Code** Section 35-3 altered the operation of WCFU. The recodification distanced the fund from state control by placing it under the direction of an executive board appointed by the Governor. As a result, the fund obtained a quasi-governmental status. While the recodification took place in 1988, it took until 1990 for WCFU to put in place all necessary administrative support systems, including a new job classification and compensation system. As a quasi-governmental organization, WCFU was no longer tied to the state's job classification and compensation system.

By definition WCFU is a quasi-governmental organization. However, WCFU executives view the organization more as a private business than as a quasi-governmental organization. As a result, their board has chosen to compensate them at a level consistent with private-sector insurance companies. Consequently, it is difficult to determine which market (quasi-governmental or private-sector) best represents this organization. This report was not intended to determine which market is acceptable, that is a policy decision that rests with the quasi-governmental boards and/or the legislature. As a result of this report, the legislature may wish to increase or decrease the amount of control exercised over each quasi-governmental organization.

This chapter first provides information comparing WCFU executive compensation to different markets (e.g., governmental, quasi-governmental, and private-sector). Next, a regression analysis is presented using the data gathered to predict WCFU executive compensation given its size and organizational structure. Finally, the results of WCFU's own compensation survey of the private market are presented. We will note, however, that we believe the most direct comparison is with organizations having the same political structure (quasi-governmental) and size as WCFU.

We gathered compensation data from 12 workers' compensation organizations comprised of surrounding intermountain organizations and organizations that were selected by WCFU as comparable organizations. In addition, we gathered compensation data on 11 private insurance companies and 11 private Utah companies. This information is organized into seven market comparison groups in Figure III. It should be noted that the 12 workers' compensation organizations can appear in more than one market and, in fact, all 12 organizations appear in at least two markets. First, seven of the 12 workers' compensation organizations represent the intermountain market, which is similar to Utah in location. Although these organizations may be different from WCFU in terms of size and organizational structure, these data give the Legislature a good idea of how neighboring states are compensating their executives. Second, six of these workers' compensation organizations represent the selected market. These are organizations identified by WCFU executives as being comparable in size or political structure. Third, seven of the 12 workers' compensation organizations represent the quasi-governmental market. Quasi-governmental is the same political structure as WCFU. Fourth, three of these organizations represent the governmental market. This market provides a contrast between governmental salaries, quasi-governmental salaries and private-sector salaries. Fifth, two of these organizations represent the private, non-profit workers' compensation market. It is this political structure that WCFU would like to obtain. In addition to these five markets, the private insurance market is represented by 11 private Utah insurance companies while Utah's general private-sector market is represented by 11 Utah companies. It is the private-sector market that WCFU believes provides the most relevant comparison.

In a few cases, we were able to gather the salary data directly from the organization. However, in most cases the organizations refused to supply salary data to us. As a result, we obtained our data primarily from state insurance departments. Consequently, the most current salary data available to us were from 1995.

In presenting these data, the following format was developed to compare the executive compensation for WCFU to other markets. First, for each market, the average base salary is reported. The base salary is the compensation received prior to performance or incentive enhancements. Second, the average bonus and other compensation monies are reported. Within this category, performance bonuses, stock options and car allowances are reported. Third, average total compensation is reported. This is simply the addition of the base salary plus the bonus and other compensation.

The overall results of each market comparison are shown in Figure V. A detailed analysis of each comparison follows.

Figure V
Summary Comparison Between WCFU and Other Organizations
1995 CEO Compensation

Market	Average Base Salary	Average Bonus & Other Compensation	Average Total Compensation
Intermountain States	$ 97,070	$ 9,855	$106,925
Selected States	127,275	38,207	165,482
Quasi-Government States	116,314	32,014	148,328
Governmental States	75,179	-0-	75,179
Private, Non-profit States	136,696	18,883	155,579
Utah Private Companies	150,223	46,005	196,228
Utah Private Insurance	183,089	53,534	236,623
WCFU	**$142,894**	**$83,400**	**$226,294**

When the CEO came to WCFU in 1992, his base salary was slightly higher than what he was making in his former position, however, his total compensation was less. Since 1992, his total compensation has increased 77 percent. As can be seen, the base compensation of WCFU's CEO is higher than all comparison groups in our sample with the exception of Utah private companies and private insurance. Also, his bonus and other compensation are also significantly higher than all comparisons. This bonus figure is comprised of a $75,000 bonus and a $700/month car allowance ($8,400 a year). As a result, the total compensation for WCFU's CEO is higher than the total compensation averages of all comparison groups with the exception of Utah private insurance companies. In fact, WCFU's base and total compensation appear to be most comparable to the two private Utah groups. This could be because WCFU compares itself primarily to a national, private market. However, it should be remembered that WCFU is a quasi-governmental organization. While this figure has shown overall summary information for each comparison made, the section that follows will discuss each comparison in detail.

WCFU's CEO Compensation is Generally High

The WCFU CEO's compensation is comparatively high in most of the seven comparisons made. These comparisons are between WCFU and: (1) intermountain workers' compensation organizations; (2) selected workers' compensation organizations; (3) quasi-governmental workers' compensation organizations; (4) governmental workers' compensation organizations; (5) private, non-profit workers' compensation organizations, (6) Utah private companies and, (7) Utah private insurance companies. In most cases, the salary of WCFU's CEO is higher than the average salaries of the comparison organizations.

Comparison With Intermountain Organizations

Both base salary and total compensation are significantly higher for WCFU's CEO than for CEO's of workers' compensation organizations in the intermountain area. Compensation data were collected from organizations in seven intermountain states: Arizona, New Mexico, Nevada, Idaho, Montana, Wyoming, and Colorado. These intermountain organizations represent a mix of quasi-governmental and governmental organizations.

The CEO of WCFU has a base salary that is more than 47 percent higher and total compensation that is about 112 percent higher than the average for CEOs' of intermountain organizations. Base salaries and total compensation in the intermountain organizations ranged from $61,200 to $131,981. In addition, the bonus of WCFU's CEO is 746 percent higher than the average intermountain organizations' bonus. In fact, bonuses were not common in the intermountain organizations, with only three of the seven organizations giving bonuses. Also, the bonus and other compensation represent 58 percent of the base compensation of WCFU's CEO, while the average bonuses and other compensation of the intermountain organizations' represent only 10 percent of the average base compensation.

While these data give a picture of how the CEO's compensation in Utah compares to intermountain organizations, these organizations may not be comparable to Utah in terms of size or political structure. In fact, WCFU maintains that, for the most part, they are not. As a result, we asked WCFU to provide us with a list of workers' compensation organizations that they believe are comparable to WCFU. Executives at WCFU provided us with seven funds that they believe to be more comparable to the Workers Compensation Fund of Utah. We were able to obtain salary data on six of the funds: (1) Missouri Employers Mutual; (2) New Mexico Mutual Casualty; (3) Beacon Mutual of Rhode Island; (4) Texas Workers' Compensation; (5) Kentucky Employers Mutual; and, (6) Louisiana Workers' Compensation Corporation. These funds represent a mix of quasi-governmental and private, non-profit organizations.

Comparison With Selected Organizations

The base salary for WCFU's CEO is somewhat higher while the bonus and total compensation is significantly higher than the average compensation for CEOs in selected organizations. The CEO of WCFU has a base salary that is about 12 percent higher and total compensation that is about 37 percent higher than those CEO's of selected organizations. Base salaries in the selected organizations ranged from $97,212 to $153,370 while the total compensation ranged from $125,000 to $242,325. Bonuses are common in the selected organizations, with five of the six CEO's receiving a bonus. WCFU's bonus is 118 percent higher than the average bonus of the selected states. In addition, WCFU's bonus and other compensation is 58 percent of the base salary, while in the selected agencies the average bonus and other compensation is 30 percent of the base salary.

It is not unusual for CEO's of private-sector companies to receive bonuses of 20 to 50 percent of their base salary. The bonus percentages of CEO's in the selected organizations fit into the lower end of this range while WCFU's CEO bonus is above the high end of this range. It is certainly possible that WCFU outperforms these other selected organizations by having lower rates and so deserves significantly larger bonuses. However, it was our initial expectation that WCFU and these selected organizations would be closer in compensation.

Since the WCFU is a quasi-governmental organization, we believed that it would also be appropriate to compare WCFU's salaries to those paid within other quasi-governmental workers' compensation organizations. From the 12 organizations surveyed, we identified seven workers' compensation organizations that have a quasi-governmental structure. We identified an organization as quasi-governmental if the governor appoints the majority of the executive board members and if the CEO is selected by and reports to the executive board.

Comparison With Quasi-Governmental Organizations

Both the base salary and total compensation of WCFU's CEO is significantly higher than the average base pay and total compensation in quasi-governmental workers' compensation organizations in other states. The CEO of WCFU has a base salary that is about 23 percent higher and total compensation that is nearly 53 percent higher than those CEO's of other quasi-governmental agencies. Base salaries in these quasi-governmental organizations ranged from $84,047 to $138,036, while total compensation ranged from $93,712 to $242,325. Bonuses were common in quasi-governmental organizations, however, WCFU's bonus and other compensation is 160 percent higher than those of other quasi-governmental CEO's. Utah's bonus and other compensation represents 58 percent of the base salary, while in quasi-governmental agencies the bonus and other compensation is 28 percent of the base. In our opinion, this comparison with other quasi-governmental organizations is the most relevant comparison. We expected total compensation between WCFU and other quasi-government organizations to be more comparable.

From the group of 12 workers' compensation organizations, we identified three that are governmental agencies. Prior to 1988, the WCFU was a state agency. Consequently, it is informative to show how other states compensate their workers' compensation organizations. Since states are traditionally conservative regarding compensation, we did not expect WCFU's salaries to be close to those in other governmental workers' compensation agencies. As a quasi-governmental organization, WCFU can use whatever market it believes is appropriate to establish salaries.

Comparison With Other Governmental Agencies

As shown in Figure III, the CEO of WCFU is paid significantly more than counterparts in workers' compensation organizations that are state agencies. Specifically, WCFU's CEO has a base salary that is 90 percent higher and total compensation that is 200 percent higher than those in state agencies. The base salary and total compensation in state agencies ranged from $61,200 to $94,636. Bonuses and other compensation were not found in state agencies, whereas such additional compensation is not uncommon among quasi-governmental organizations.

While the governmental workers' compensation market represents the low end of compensation for the 12 workers' compensation organizations surveyed, the private non-profit organizations represent the high end of the 12 organizations surveyed. Only two of the 12 workers compensation organizations surveyed have private, non-profit structures.

Comparison With Private Non-Profit Organizations

The base salary of WCFU's CEO is comparable to the base salaries of private, non-profit workers' compensation organizations. However, the total compensation of Utah's CEO is higher than the average of private-sector workers' compensation organizations.

When compared to private, non-profit workers' compensation organizations, the base salary of WCFU's CEO appears comparable. Specifically, the CEO of WCFU has a base salary that is about 5 percent higher than those CEO's of private, non-profit organizations.   The base salary for the private, non-profit organizations ranged from $120,021 to $153,370.   However, the total compensation of WCFU's CEO is more than 45 percent higher than total compensation in the private, non-profit organizations. Total compensation of private, non-profit organizations ranged from $136,821 to $174,337. WCFU's bonus and other compensation is 58 percent of the base salary, while in the private-sector organizations it is 14 percent of the base salary. Again, it is possible that WCFU outperforms these organizations by having lower rates and so deserve significantly larger bonuses.

As a final comparison, we compared WCFU's executive salaries to executive salaries in Utah's private industry. This is particularly important because this represents the market which WCFU officials believe is most comparable.

Comparison With Private Industry

When compared with two different surveys of Utah's private market, the base salary of WCFU's CEO generally appears comparably low. In making this private-sector market comparison, we compared WCFU's compensation to data collected from 11 similar-sized Utah private companies and 11 large Utah private insurance companies.

To provide compensation data on Utah's private-sector market, we used a survey compiled by Human Resource Network based in Salt Lake City. Thirty-six Utah companies submitted executive compensation data to this survey. These 36 companies represent various industries and are not exclusively insurance companies. Of these 36 companies, 11 were a similar size to WCFU having between 100 to 300 employees.

WCFU's CEO received a base salary which is about 5 percent below the average base salary for these 11 similar-sized companies. However, the total compensation of WCFU's CEO is 15 percent higher. This is because the bonus of WCFU's CEO is 81 percent higher than the average bonus of the CEO's in the 11 private companies. The average bonus within this private market is 31 percent of the base salary while the bonus at WCFU is 58 percent of the base salary.

As previously mentioned, the private-sector market data above represents similar-sized organizations but is not specifically focused on insurance companies. The executives at WCFU provided a list of 11 Utah insurance companies which they believe are comparable.

WCFU's CEO received a base compensation that is 28 percent less than the average base salary of the 11 Utah based insurance companies. Base compensation for these 11 companies ranged from $104,861 to $445,197. However, the total compensation of WCFU's CEO is only 5 percent less than the average total compensation of CEO's in these 11 companies. This is because the bonus and other compensation of WCFU's CEO is 56 percent higher than the bonus and other compensation received by the CEO's in these 11 companies. Total compensation for these companies ranged from $110,076 to $742,924 while bonuses and other compensation ranged from $0 to $297,727.

In addition to the CEO's salary, we also examined salaries of those positions that report directly to the CEO (the second-level executives). In making these comparisons, we combined all the positions that report directly to the CEO and reported them as one average salary. We did this because we did not always have enough matches on a specific position to make a reasonable comparison of salaries. We feel comfortable with this approach since it was not the goal of this report to make specific salary recommendations for specific positions. Further, salaries of second-level executives tended, in most cases, to be very close to each other.

WCFU's Second-Level Salaries are Comparatively High

The base salary for WCFU's second-level executives is comparatively high in five of the six comparisons made while the total compensation is comparatively high in all six comparisons made. As with the CEO comparisons, these second-level executive comparisons are between WCFU and: (1) intermountain workers' compensation organizations; (2) selected workers' compensation organizations; (3) quasi-governmental workers' compensation organizations; (4) governmental workers' compensation organizations; (5) private, non-profit workers' compensation organizations and, (6) similar-sized private-sector companies in Utah. We were unable to obtain reliable data on second-level salaries in Utah's private insurance companies. In all comparisons of total compensation, WCFU's second-level executives are high, as Figure VI shows.

Figure VI
Summary Comparison Between WCFU and Other Organizations Second-Level Executive 1995 Compensation

Market	Average Base Salary	Average Bonus & Other Compensation	Average Total Compensation
Intermountain States	$ 67,427	$ 4,606	$ 72,033
Selected States	86,909	14,435	101,344
Quasi-Government States	78,947	10,506	89,453
Governmental States	56,102	-0-	56,102
Private, Non-profit States	102,475	11,872	114,347
Utah Private Companies	94,553	17,793	112,346
Utah Private Insurance	*	*	*
WCFU	**$ 99,814**	**$ 29,650**	**$129,464**

***** *Information on second level executives was not reliably available.***

The base compensation of the WCFU second-level executives is exceeded only by the base salary of the private non-profit workers' compensation organizations. Specifically, the average base compensation of the private, non-profit organizations is about 3 percent higher than the base salaries at WCFU. However, the base salaries of second-level executives at WCFU is 26 percent higher than those in the quasi-governmental organizations and 15 percent higher than the selected organizations. In our opinion, these two comparisons are the most meaningful because they best represent the structure and size of WCFU.

In addition, the total compensation of WCFU's second-level executives is higher than any of the comparison salaries. The closest to WCFU in total compensation is private, not-for-profit workers' compensation organizations. When compared to this group, the average total compensation of WCFU's second-level executives is 13 percent higher. When compared to the organizations that WCFU believes are comparable, the total compensation of WCFU's second-level executives is 27 percent higher. Finally, when compared to other quasi-governmental workers' compensation organizations, the total compensation of WCFU's second-level executives is about 45 percent higher.

WCFU believes that these compensation levels are necessary to hire capable talent. WCFU hired three of the current four second-level executives from private-sector companies, supporting their claim to be compared to compensation paid to CEO's in large private-sector companies. Three of the four second-level executives came to WCFU (two in 1993 and one in 1994) from companies in the private-sector market and their WCFU salaries at hire were comparable to what they were making in their former positions. Since coming to WCFU, the second-level executives' salaries have increased from 24 to 63 percent.

So far, all comparisons have been made with only a general regard for the size and the political structure of the organization, with no specific regard for the varying experience levels of the CEO's. However, there has been extensive research using regression analysis demonstrating that CEO compensation is significantly related to these factors. In other words, the bigger the organization and the more experience the CEO has, the higher the CEO's salary. Given this, we wanted to determine if a similar relationship could be found from the workers' compensation data collected from the 12 states in our survey. If a relationship was found, an expected salary could then be determined based on those factors found to have a significant relationship with CEO salary.

WCFU's Executives are Paid More Than Expected

When organizational size and the political structure of the organization (i.e., state, quasi-governmental, or private non-profit) are simultaneously considered, lower executive salaries at WCFU are expected. CEO experience was also considered but it was so strongly related to organizational size that it did not contribute to the model's predictive ability. Specifically, our model predicts total compensation of $136,327 for the WCFU CEO and an average total compensation of $87,249 for the WCFU second-level executives. It should be noted that this analysis does not consider Utah private-sector data or private insurance data. Rather, our wage survey was only conducted in 12 workers' compensation organizations.

As discussed previously, a wage survey was done for the top five officers in 12 workers' compensation organizations. The states surveyed were Arizona, Colorado, Idaho, Montana, New Mexico, Nevada, Wyoming, Kentucky, Louisiana, Missouri, Rhode Island, and Texas.

The following information was gathered from each of the states surveyed: (1) position title; (2) 1995 salary; (3) 1995 bonus; (4) 1995 other compensation; (5) 1995 total compensation; (6) assets of the fund; (7) number of full-time equivalent employees; (8) experience and educational level of the CEO; and (9) the political structure of the organization (i.e., state, quasi-governmental, or private, non-profit).

When a correlation analysis was performed on the above factors, it was determined that asset size of the fund, number of full-time employees, experience and educational level of the CEO and the political structure of the organization were all highly correlated to a CEO's salary size. In other words, the bigger and more like the private-sector the organization, the larger the CEO's salary. The most predictive of these four factors were the number of full-time employees and the political structure of the organization.

A regression analysis was performed on these data using the number of full-time employees (FTE's) and the political structure of the organization as the two independent variables and CEO total compensation as the dependent variable. This analysis predicts that, given the size and political structure of WCFU, the total compensation for the CEO of WCFU should be $136,327. In addition, 68 percent of all the quasi-governmental CEOs' salaries are expected to fall within a range between $106,235 to $166,419, while only 2.5 percent are expected to be above $196,511. Sixty-eight percent represents one standard deviation away from the mean, while 2.5 percent represents three or more standard deviations away from the mean. In other words, a quasi-governmental workers' compensation CEO whose total compensation is $196,511 or more is in the upper 2.5 percent of the salary distribution. The total compensation of WCFU's CEO is $226,294. As can be seen, this salary amount is more than the expected salary given organizational size and political structure.

A standard practice for estimating the compensation of vice-presidents is to calculate their compensation as a percent of the CEO's compensation. Using percentages calculated from the 12 survey states, we estimate that the second-level executives would average $87,249 in total compensation if the CEO was making $136,327 as estimated above. Further, 68 percent of all second-level executives' total compensation would fall in a range from $67,991 and $106,508. Currently, second-level executives at WCFU average $129,464 in total compensation. Again, second-level executive salaries are higher than expected.

It is possible that WCFU's salaries appear comparatively high in our comparisons and in our regression model because WCFU compares themselves to the national property and casualty insurance market.

WCFU Compares Primarily to a National Market

The national property and casualty insurance market is the market primarily used by WCFU to establish executive salaries. It is WCFU's policy to pay at the 50th percentile of this market. However, in practice, WCFU pays its executives at the 75th percentile of this market. In other words, WCFU salaries are in the top 25 percent of the market. The board and the senior executives maintain that this practice is justified because of the high performance of WCFU and the senior executives.

WCFU uses the Hay Group as their compensation consultant to help them establish appropriate compensation for their executive positions as well as all other positions in the organization. Each position's responsibilities are evaluated using a point-factor methodology that measures the scope and complexity of each job. Based on this analysis, each position is assigned a certain number of points. The Hay consultant then uses data obtained from the *Hay Compensation Report: Insurance Industry USA*, a national industry survey, and analyzes the compensation data for jobs of similar scope and complexity (i.e., similar point values) from property and casualty companies with annual revenues of less than $500 million. WCFU's 1995 revenues were $144 million.

In addition, WCFU has made the decision to be competitive at the 50th percentile of this national property and casualty insurance market. However, in practice, WCFU is competitive at the 75th percentile of this market. This practice means that WCFU's executive compensation is in the top 25 percent of national property and casualty companies with revenues less than $500 million. In our opinion, this is an aggressive compensation practice. By paying competitive salaries at the 75th percentile, an organization runs the risk of being a compensation leader and paying salaries that are unnecessarily high. On the other hand, the WCFU board believes that this practice is justified given the performance of WCFU and its senior executives.

According to Hay's compensation review, positions in the 75th percentile with the same number of points as WCFU's CEO averaged $166,265 as a base salary and $198,829 in total compensation in 1995. During this time, the CEO at WCFU had a base salary of $142,894, which is $23,371 less than the market pays and total compensation of $226,294, which is about $27,465 more than the market pays. According to the Hay consultant, the total compensation paid in 1995 is very competitive relative to the market. However, the Hay consultant did recommend that the salary range midpoint needed to increase to $178,013.

For the second-level executives, positions in the 75th percentile with the same number of points averaged an actual base salary between $89,984 and $95,989 and actual total compensation between $101,868 and $109,501 in 1995. WCFU's second-level executives, during this time, averaged $99,814 in base salary, $3,825 above the highest average base salary at the 75th percentile and $129,464 in total compensation, which is $19,963 above the highest average total compensation at the 75th percentile. The Hay consultant stated that the current base salaries are competitive relative to the market while the total compensation paid in 1995 is very competitive relative to the market. Hay's new salary range midpoint formula did support increasing the second-level executive's midpoint to between $92,191 and $98,947.

In our opinion, WCFU is aggressive in establishing executive salaries when compared to quasi-governmental organizations. First, in most of the comparisons that we made, WCFU's salaries were higher. Second, in the regression analysis that we performed, the CEO's total compensation is estimated to be in the top 2.5 percent of the salary distribution for all workers' compensation organizations regardless of size. Third, although it is WCFU's policy to be competitive at the 50th percentile of the national property and casualty market, in practice, WCFU is competitive at the 75th percentile of this market.

As a quasi-governmental organization, management and the WCFU board are unrestricted in determining appropriate compensation. The selection of a comparable market is a key determinant. In our opinion, organizational size and political structure should be of primary importance when selecting comparable organizations. As this chapter shows, compensation varies significantly from market to market. Decisions to compare with a quasi-governmental versus a private-sector market can result in compensation differences amounting to tens of thousands of dollars in executive compensation salaries.

The next chapters of this report will detail a significant difference between the compensation of this organization and other quasi-governmental organizations. Some of these organizations have assets and investments larger than WCFU. Like WCFU, these organizations have been exempted from the state government's compensation requirements but because of legislative concerns they have kept compensation levels near those paid to top state department executives. One of these organizations is now interested in seeking compensation levels consistent with markets other than government or quasi-government and possibly more similar to WCFU's compensation levels. The question facing the Legislature is whether the market comparisons of quasi-governmental organizations should be restricted (consequently restricting compensation) or whether comparison markets and compensation levels should be left to each organization and their board to determine.

Chapter IV
Pay Practices at Utah Transit are Somewhat Aggressive

Utah Transit Authority (UTA) is somewhat aggressive in establishing executive salaries when compared to other transit organizations. The General Manager's salary and the average salary of second-level executives are higher than salaries in surrounding intermountain organizations and salaries in selected organizations. On the other hand, when compared with Utah's private-sector market, both the General Manager's salary and the second-level executives' average salary are comparatively low. In addition, when factors that influence executive salary (i.e., organizational size and executive experience) are considered, lower salaries are expected for both the General Manager and the second-level executives. In setting its executive salaries, UTA uses both regional private market data as well as data from selected transit organizations.

For our analysis, we gathered data from 12 transit organizations comprised of inter- mountain organizations and organizations that were selected as comparable by UTA. The transit data is divided into two categories; however, it is possible for a transit organization to be included in both categories. First, five of these transit districts represent the intermountain area, which is similar to Utah in location. While many of these transit organizations may not be similar in size or structure to the UTA, these data provide the Legislature with an idea of what neighboring cities are compensating their transit executives. Second, nine of these districts represent organizations identified by UTA executives as comparable to UTA. Two of these selected districts are also in intermountain cities. Since these organizations are primarily city transit organizations, comparisons involving political structure (i.e., quasi-governmental, state-run, and private, non-profit) did not seem appropriate and were not done. In addition, we included private-sector market data for comparison.

In presenting these data, the same standard format used to present the WCFU data is also used. First, for each position within each organization, the base salary is reported. The base salary is the compensation received prior to performance or incentive enhancements. Second, bonus and other compensation monies are reported. Within this category, performance bonuses, stock options, and car allowances are reported. Third, total compensation is reported. This is simply the base salary plus the bonus and other compensation.

Before analyzing the total compensation of UTA's General Manager in depth, overall summary information of each comparison is provided in Figure VII.

Figure VII
Summary Comparison Between UTA and Other Organizations
1996 General Manager Salaries

Organization	Base Salary	Bonus and/or Other Compensation	Total Compensation
Intermountain Cities	$ 70,681	$ 3,360	$ 74,041
Selected Cities	105,997	3,608	109,605
Utah Private Companies	222,864	Not Available	Not Available
UTA	**$ 133,350**	**$ 18,360**	**$ 151,710**

As shown above, both the base salary and the total compensation of UTA's General Manager is higher than both the intermountain and the selected organizations. We were surprised with the selected comparison. One would expect the compensation of UTA's General Manager to be comparable to the selected organizations. Instead, his base salary is 26 percent higher and his total compensation is 38 percent higher. On the other hand, general managers of private companies in Utah of comparable size to UTA are paid far more base salary than UTA's general manager. However, UTA is not a private organization. While this figure has shown overall summary information of each comparison made, the section that follows will discuss each comparison in detail.

UTA's General Manager's Compensation is Generally Higher

The salary of UTA's General Manager is higher in two of the three comparisons made. First, both the base salary and the total compensation of UTA's General Manager are higher than those of organizations in surrounding intermountain states. Second, when compared with organizations identified as comparable by UTA, the base salary and the total compensation of the General Manager are higher. Third, when compared with Utah's private-sector market however, the base salary of UTA's General Manager is comparatively low. No private-sector market information was available on bonuses or other compensation for companies of UTA's size.

Comparison with Intermountain Organizations

Both the base salary and the total compensation of the General Manager are higher than those found in intermountain city transit organizations. For this analysis, data from the following city transit organizations were used: (1) Phoenix, (2) Denver, (3) Albuquerque, (4) Las Vegas and (5) Cheyenne.

The base salary of UTA's General Manager is 89 percent higher than the base salaries of general managers in the surrounding intermountain organizations. Base salaries in the intermountain organizations range from $28,063 to $107,500. Further, the total compensation for UTA's General Manager is 105 percent higher than total compensation in the intermountain organizations. Total compensation in the intermountain areas ranges from $28,063 to $113,100. The bonus for UTA's General Manager is 14 percent of the base salary, which is a somewhat low bonus percentage for a general manager. It is not uncommon for CEO's in private companies to receive bonuses between 20 and 50 percent of their base salary. The average bonus for general managers of the surrounding intermountain organizations is 5 percent of the base salary, which is a low bonus percentage for a general manager. While the salary of UTA's General Manager looks very high in comparison to salaries in the intermountain area, it must be noted that most of these organizations are significantly smaller in the number of full-time employees and fleet size than UTA. Only one organization surveyed is larger in size than Utah Transit Authority and the total compensation for that organization's general manager is $107,500. Because these organizations, overall, do not compare well with UTA, we asked the Human Resource Director at UTA to provide us with a list of organizations that are comparable with UTA.

Comparison with Selected Organizations

Both the base salary and the total compensation for the General Manager of UTA are higher than salaries of selected organizations. The following city transit organizations were identified as comparable: Phoenix, Sacramento, Oakland, San Diego, Denver, Honolulu, Buffalo, San Antonio, and Milwaukee.

The base salary of UTA's General Manager is 26 percent higher than the average base salary in the selected organizations. The base salaries of the selected organizations range from $67,842 to $140,595. In addition, the General Manager's total compensation is 38 percent higher than that of selected agencies. Total compensation ranges from $73,442 to $140,595. The UTA's General Manager's bonus is 14 percent of the base salary while the general managers in the selected organizations received an average bonus of 3 percent of the base. We should note that the General Manager's bonus varies from year to year. The bonus has been as low as $12,000 and as high as $21,000. However, we were surprised that the General Manager's compensation at UTA was not closer to those in selected organizations. It is possible that the salaries are not closer because UTA considers regional private market data as well as selected transit organization data when establishing salaries.

Comparison with the Private-sector Market

The base salary for UTA's General Manager is significantly less than what Utah's private-sector market pays in companies of similar size. Bonus and other compensation data was unavailable for 1996 and so our comparison is limited to base salaries only.

To provide compensation data on Utah's private market, we used a survey compiled by Human Resource Network based in Salt Lake City. Thirty-six Utah companies submitted executive compensation data to this survey. These 36 companies represent various industries and are not exclusively transit companies. Of these 36 companies, six were a similar size to UTA having over 701 employees.

The 1996 base salary for UTA's General Manager was $133,350 which is 67 percent below the private-sector base salary. As can be seen, the salary for UTA's General Manager is significantly less than what is paid in Utah's private-sector market. However, UTA is not a private company.

In addition to the General Manager's compensation, we also examined the compensation of those positions that report directly to the General Manager (the second-level positions). In making these comparisons, we combined all the positions that report directly to the General Manager and reported them as one average salary. We did this because we did not always have enough matches from other organizations on a single position to make a reasonable comparison of salaries. We feel comfortable with this approach since it was not the goal of this report to make specific salary recommendations for specific positions. Further, the salaries of second-level executives tended, in most cases, to be very close to each other.

UTA's Second-Level Salaries are Slightly High

The base salary and the total compensation for UTA's second-level executives are higher than salaries in the intermountain organizations. However, both the base salary and total compensation of UTA's second-level executives are only slightly higher than selected organizations. When compared with salaries in Utah's private-sector market, UTA's second-level executive's salaries are low. Figure VII shows the comparison summaries.

Figure VIII
Summary Comparison Between UTA and Other Organizations 1996 Second Level Executive Average Salaries

Organization	Base Salary	Bonus and/or Other Compensation	Total Compensation
Intermountain Cities	$ 51,919	$ 1,120	$ 53,039
Selected Cities	79,138	1,564	80,702
Utah Private Companies	103,015	Not Available	Not Available
UTA	**$ 83,200**	**$ 10,940**	**$ 94,140**

The average base salary for UTA's second-level executives is 60 percent higher than salaries in intermountain organizations while total compensation is 77 percent higher than in intermountain organizations. However, UTA's second-level executives' base salary averages are only 5 percent higher than base salaries in selected organizations, while total compensation is 17 percent higher than total compensation in selected organizations. On the other hand, when compared to similar-sized private companies in Utah, UTA's base salaries for second-level executives are 24 percent lower. Based on these comparisons, UTA's second-level executive salaries seem only slightly high.

So far, all comparisons have been made with only a general regard for the size of the organization and no specific regard for the varying experience levels of the general managers. However, extensive research demonstrates that CEO compensation is significantly related to these factors. In other words, the bigger the organization, the larger the CEO's salary. Given this, we wanted to determine if a similar relationship could be found from the city transit data collected from the 12 organizations in our survey. If a relationship was found, an expected salary could then be determined based on those factors.

UTA Executives are Paid More Than Expected

When organizational size is specifically considered, lower salaries for UTA executives are expected. Specifically, our model predicts total compensation of around $110,000 for the General Manager and an average total compensation of $85,380 for the second-level executives.

As discussed previously, a wage survey was done for the top five officers in transit organizations of five intermountain cities and seven selected cities. The cities surveyed were Phoenix, Sacramento, Oakland, San Diego, Denver, Honolulu, Albuquerque, Las Vegas, Buffalo, San Antonio, Milwaukee, and Cheyenne.

The following information was gathered from each of the transit organizations surveyed: (1) position title; (2) 1996 salary; (3) 1996 bonus; (4) 1996 other compensation; (5) 1996 total compensation; (6) assets of the organization; (7) number of full-time equivalent employees; (8) number of buses; and (9) the experience and educational level of the general manager.

When a correlation analysis was done on the above factors, organizational size, (which is a composite of the number of buses and the number of full-time employees), experience, and educational level of the general manager were all found to be highly correlated with a general manager's salary level. In other words, bigger organizations with more experienced general managers pay higher salaries. The most predictive of these three factors was organizational size. Education and experience were found to be highly correlated with organizational size. In other words, the bigger the organization, the more education and experience the general manager had. As a result, only organizational size was used in the regression model.

A regression analysis was performed on these data using organizational size as measured by the number of buses and the number of full-time employees (FTE's) as the independent variable and general manager total compensation as the dependent variable. This analysis predicts that given the organizational size of UTA, the total compensation of the General Manager should be approximately $110,000. In addition, the total compensation of 68 percent of all the general managers is expected to fall within a range between $91,661 and $129,645. Sixty-eight percent is used to encompass all general managers' total compensation which is one standard deviation away from the mean. Further, only 2.5 percent of the general managers are expected to be paid above $148,637. The total compensation of the UTA General Manager is $151,710. This salary is more than what is expected, given the organizational size of UTA.

A standard practice for estimating the compensation of second-level executives is to calculate their compensation as a percent of the general manager's compensation. Using percentages calculated from the 12 city transit organizations, we estimated that second-level executives in UTA would average $85,380 in total compensation if the General Manager was making $110,000, as estimated above. Further, we would expect the average total compensation of 68 percent of all second-level executives to fall between $70,595 and $99,850. The average total compensation for UTA second-level executives is $94,140. As can be seen, this average compensation is above our estimate; however, it does fall within the projected range.

It is possible that UTA salaries look somewhat higher than expected because UTA compares salaries using private market data as well as national transit market data.

Comparison to Private Markets and Selected Transit Markets

may Result in Somewhat Higher Salaries

UTA uses two broad markets to help determine appropriate compensation for executive positions: private market data from Utah and from around the region is used as well as data from selected transit organizations around the country. It is possible that the use of private market data may result in salaries that are somewhat higher than expected.

In collecting private market data, the following sources were used: (1) a **Panel Publishers Survey**, (2) an **Ernest and Young Survey**, (3) a **Watson-Wyatt Regional Survey**, and (4) an **Employment Council Survey**. These surveys provide both private market data from around the region and private market data within Utah. The 1995 data from the above surveys were used to establish 1996 compensation. The industry average from these surveys supports a base salary of $195,269 for the general manager and an average base salary of $104,818 for the second-level executives.

In addition, compensation data from selected transit organizations were also collected. The transit organizations used were: (1) San Antonio Transit, (2) Milwaukee Transit, (3) Alameda Transit, (4) Honolulu Transit, (5) Niagara Transit, (6) San Mateo Transit, (7) San Diego Transit, and (8) Cincinnati Transit. The average of these data supports a base salary of $110,415 for the general manager and an average base salary of $79,419 for the second-level executives. These are mostly the same organizations that were previously reported in this chapter as the selected market. However, the data previously reported were 1996 salary data, while the data reported in this section are 1995 data.

The Utah Transit Authority uses the private market data and the selected transit organization data by combining the data and developing salary ranges that are supported by these data. It is UTA's policy to pay the median of the market which, in our opinion, is a conservative policy. These data support a range for the General Manager base salary between $110,415 and $196,215. In 1996, the General Manager's base salary was $133,350 and the total compensation was $151,710. Both figures are within the constructed range. These data also support a range for base salaries of second-level executives between $79,053 and $100,549. The average base salary for the second-level executives is $83,200 while the total compensation averages $94,140. Again, both figures are within the constructed range.

In summary, UTA appears somewhat aggressive in establishing executive compensation. First, when comparisons are made between UTA's executive salaries and salaries of transit executives in surrounding intermountain organizations, UTA's salaries are comparatively high. However, UTA is much larger than all but one of these organizations. Second, when comparisons are made with selected transit organizations, the compensation of the General Manager is still comparatively high while the compensation of the second-level executives are somewhat high. When the size of the organization is specifically considered, the compensation of the General Manager and the second-level executives is higher than expected. Although UTA's executive compensation appears low when compared to Utah's private-sector market, it should be remembered that UTA is not a private company. Currently it is a combination of state and regional private market data and selected transit organization data that is used to establish executive compensation.

Again it can be seen that different markets yield different compensation levels. The question facing the Legislature is whether market comparisons of organizations not bound by state compensation guidelines should be restricted or whether comparison markets and compensation levels should be left to each organization's governing board to determine.

Chapter V
Utah Retirement's Compensation Practices Appear Comparatively Moderate

The executive compensation practices at the Utah Retirement Systems (URS) appear comparatively moderate. When compared to some retirement systems, salaries of the URS Executive Director and Deputy Director are low. However, in some of the comparisons, URS's organizational size is not comparable with that of the other retirement systems. In addition, when compared with executive salaries paid in Utah's private-sector market, URS salaries are also comparably low. When factors that influence executive salary size (i.e., organizational size factors and executive experience) are specifically considered, the executive salaries at URS appear reasonable. URS's compensation practices are moderate because URS has chosen to closely follow Utah state government compensation practices.

The Utah Retirement Systems (URS) has been a quasi-governmental state agency since July 1981. It provides Utah's state employees, teachers and all city and county employees with their retirement and investment needs. Like many of the quasi-agencies in this audit, the URS Executive Director reports to the URS Board of Directors, who are charged with directing URS affairs. The Governor appoints all board members, with the exception of the State Treasurer, who serves as an *ex officio* member with full voting privileges. However, URS is different than many other comparable retirement systems throughout the United States because it not only covers state employees but also handles Utah's elementary and secondary teachers' retirement needs, as well as many higher education employees' retirement accounts. In fact, approximately 57 percent of URS's investment assets are teachers' monies.

As is the case with previous chapters, URS salary levels are compared to various markets: the intermountain market, the selected market, the quasi-governmental market, and the state-run market. Our survey sample consists of 21 retirement systems made up primarily of surrounding intermountain systems and systems identified by URS as comparable. In addition, our sample included two main types of retirement systems: 1) state employee retirement systems, which include but are not limited to servicing each state's city, county, and state employees, and 2) teacher retirement systems, which serve each state's education community. Our sample is relatively large because whenever URS identified a teachers' retirement system as a comparable system, compensation data on that state's state retirement system were also gathered.

These 21 systems are broken into four categories. It should be noted here that a particular retirement system can be in more than one category. In other words, it is hypothetically possible for one retirement system to be classified as an intermountain system by virtue of its location, a comparable system by virtue of its likeness to URS, and a quasi-governmental system by virtue of its political structure. First, eight of the 21 systems analyzed represent the intermountain states, which are similar to Utah in location. Second, six of the 21 systems analyzed represent organizations identified by URS executives as comparable to URS. Third, eight of the 21 systems represent quasi-governmental organizations with an organizational structure similar to URS. Fourth, 13 of these systems are state-run organizations that provide a contrast between state salaries and quasi-governmental salaries. In addition to these markets, we gathered data from similar-sized, private-sector Utah companies.

In all cases we were able to gather salary data directly from the organization. Information regarding asset size, number of full-time employees (FTE's), and the number of active members each retirement system serves were obtained through the **Government Finance Officers Association's 1995 Survey of State and Local Government Retirement Systems**.

In presenting these data, a standard format was developed to compare URS executive compensation to other organizations. First, for each position within each organization, the base salary is reported. The base salary is the compensation received prior to performance or other incentive enhancements. Second, bonus and other compensation monies are reported. Within this category, performance bonuses and car allowances are reported. Third, total compensation is reported, which is simply the base salary plus the bonus and other compensation.

Before analyzing the total compensation of URS's Executive Director in depth, we thought it would be helpful to provide summary information of the overall results of each comparison. This is shown in Figure IX.

Figure IX
Summary Comparison Between URS and Other Organizations
1996 CEO Compensation

Organization	Average Base Salary	Average Bonus & Other Compensation	Average Total Compensation
Intermountain States	$ 69,179	-0-	$ 69,179
Selected States	145,108	$ 2,228	147,336
Quasi-Government	140,032	2,371	142,403
State-Run	77,088	-0-	77,088
Utah Private Companies	150,223	46,005	196,228
URS	**$ 94,370**	**-0-**	**$ 94,370**

In our opinion, the most critical comparisons are with the selected retirement systems and the quasi-governmental retirement systems. URS's Executive Director earns 36 percent less in total compensation than executive directors in selected retirement systems. In addition, URS's Executive Director earns 34 percent less in total compensation than do executive directors in quasi-governmental retirement systems. However, we have a concern with these two comparisons. Specifically, URS's organizational size is much smaller than either the selected systems or the quasi-governmental systems. First, URS's asset size is 80 percent smaller than the selected retirement systems' average assets and 82 percent smaller than the quasi-governmental systems' average assets. Second, URS has 62 percent fewer FTE's than the selected systems' average FTE's and 64 percent fewer FTE's than the quasi-governmental systems' average FTE's. The size of an organization can have a significant effect on salary size. As a result, our analysis later in this chapter that specifically relates salary size to organizational size becomes very important.

The following section discusses each of these four market comparisons, as well as our analysis of the data. Although we did not include all possible comparison markets, we believe that the data reported in the chapter provide a reasonable illustration of how URS compares with selected retirement markets.

URS Executive Director's Compensation Generally Compares Low

Utah Retirement Systems Executive Director's salary is comparably low in three of the five market comparisons made. These five comparisons are between URS and (1) intermountain states' retirement systems; (2) selected retirement systems; (3) quasi-governmental retirement systems; (4) state-run retirement systems; and, (5) private-sector Utah companies of comparable size.

Comparison With Intermountain Systems

Utah Retirement Systems Executive Director's salary is high compared to salaries in intermountain states' retirement systems. However, URS's organizational size is much larger than the organizational size of the intermountain states. We surveyed eight retirement systems (six state retirement systems and two teacher retirement systems) in six intermountain states: Nevada, New Mexico, Arizona, Idaho, Wyoming, and Montana. We attempted to survey Colorado's state retirement system but they were unwilling to participate.

Utah Retirement Systems Executive Director earns 36 percent more in both base salary and total compensation than intermountain state retirement systems' executive directors. The base salaries in the intermountain states ranged from a low of $43,400 to a high of $94,078. Bonuses were not found in any of the intermountain states reviewed, thus the base salary and total compensation are the same. While URS's Executive Director earns 36 percent more than the intermountain states' average, it should be noted that URS's asset size is 73 percent larger than the intermountain states' average asset size and URS has 198 percent more FTE's than the average of the intermountain states. Although the intermountain states' average organizational size is smaller than URS's organizational size, there is one particular exception that should be noted. One of the eight retirement systems surveyed has a very similar asset size (9.7 billion) and FTE size (99 FTE's) to that of URS, which has 6.2 billion in assets and 125 FTE's. The executive director's compensation for this organization is $94,078, which is almost identical to URS's Executive Director's compensation of $94,370. Thus, while the URS Executive Director's compensation is above the intermountain states' average, the one system with a similar organizational size pays a similar salary to its executive director. As shown in previous chapters, salary is often strongly related to organizational size and an analysis of salary and organizational size will come in a later section of this chapter.

Comparison with Selected Systems

Since URS is twice as large as the intermountain states' retirement systems surveyed, we asked URS to provide us with a list of retirement systems they felt were comparable to URS. Based on this list, we surveyed six retirement systems (two state retirement systems and four teacher retirement systems) throughout the United States: Texas, Alabama, Ohio, California, New York, and Illinois. URS selected these retirement systems because they are quasi-governmental organizations and because they perform multiple investment functions similar to URS's own programs.

The data show that URS's Executive Director earns 35 percent less in base salary than executive directors in selected systems. The base salaries for the selected systems range from $88,608 to $217,518. Further, URS's Executive Director earns 36 percent less in total compensation than executive directors in selected systems. Total compensation for selected systems also ranges from $88,608 to $217,518. Bonuses do not appear to be common, with only two of the six systems giving bonuses.

While URS has identified these systems as comparable, we have a concern with these data. Specifically, these systems are not comparable in terms of organizational size. The average asset size is $31 billion in the selected systems. URS's asset size (6.2 billion) is 80 percent smaller that the selected systems' average asset size. Further, the average number of FTE's in the selected systems is 325. URS's number of FTE's is 125, which is 62 percent smaller than the selected systems. It should be noted however that two of the six selected retirement systems surveyed are similar in organizational size to URS. Specifically, their average assets are 8.4 billion with an average number of 123 FTE's. While these two organizations are of a similar size compared to URS, URS's Executive Director makes 27 percent less in total compensation than the executive directors of the two similar retirement systems. Again, organizational size can have a significant effect on CEO salary size and in an upcoming section we will specifically analyze salary size and organizational size.

Since URS is a quasi-governmental organization, we believed that it would be appropriate to compare URS's salaries to those of other quasi-governmental retirement organizations. All of the preceding selected systems reported on are quasi-governmental; however, in the upcoming section information collected from two additional quasi-governmental systems is added.

Comparison With Quasi-Governmental Organizations

Both the base salary and total compensation of URS's Executive Director are significantly less than executive directors' compensation in other quasi-governmental organizations. We surveyed eight retirement systems (four state and four teacher retirement systems) throughout the United States: Alabama, Illinois, California, New York, Ohio, and Texas. The two added retirement systems have significantly larger asset sizes than URS. The Executive Director of URS earns 33% less in base salary than executive directors in other quasi-governmental retirement systems. Quasi-governmental base salaries range from $88,608 to $217,518. In addition, the Executive Director of URS earns 34 percent less in total compensation than executive directors in other quasi-governmental retirement systems. Bonuses are not common, with only three of the eight systems reporting any bonuses at all. Again, however, as with the selected data, these organizations are not close in size to URS. In fact, their average asset size is $34.6 billion and their average number of FTE's is 349, compared with URS's asset size of 6.2 billion and 125 FTE's.

As a comparison of compensation differences between the quasi-governmental market and the state-run market, we thought it would be informative to show what state-run retirement systems pay relative to what quasi-governmental systems pay in terms of the executive director's salary.

Comparison to State-run Retirement Systems

The Executive Director of URS is paid more than executive directors in state-run retirement systems. We surveyed thirteen state-run retirement systems (eleven state employee systems and two teacher retirement systems) throughout the United States: Wyoming, Washington, Texas, Oregon, Nevada, New Mexico, Montana, Kentucky, Illinois, Idaho, and Arizona. Specifically, the URS Executive Director earns 22 percent more in both base salary and total compensation than executive directors in these state-run retirement systems. The base salaries and total compensation for the state-run systems range from $43,400 to $102,000. The base and total compensation are the same because no bonuses were given in any of the state-run systems. Likewise, bonuses were not awarded by URS. URS is closer to these systems in terms of organizational size. The average asset size of these state-run systems is $6.4 billion with the number of FTE's averaging 94. In comparison, URS's asset size is $6.2 billion with 125 FTE's.

Comparison to Utah's Private-sector Market

When compared with Utah's private-sector market, the Executive Director's base salary and total compensation is significantly less than what is received in Utah's private-sector market.

To provide compensation data on Utah's private market, we used a survey compiled by Human Resource Network based in Salt Lake City. Thirty-six Utah companies submitted executive compensation data to this survey. These 36 companies represent various industries and are not exclusively transit companies. Of these 36 companies, 11 were a similar size to URS having between 100 to 300 employees.

There is a significant difference between the Executive Director of URS's salary and salaries of CEO's in Utah's private-sector market. In fact, URS's Executive Director is paid 54 percent less the CEO's in Utah's private-sector market. Further, bonuses are not uncommon in Utah's private-sector market and average 29 percent of the base pay while the Executive Director of URS has never received a bonus. However, URS is not a private company.

In addition to reviewing the URS Executive Director's salary, we also reviewed URS's Deputy Director's salary as well.

URS's Deputy Director's Salary Generally Compares Low

In three of the five comparisons made, the salary of URS's Deputy Director is comparatively low. As with the Executive Director's position, the following five comparisons were made: (1) intermountain states' retirement systems, (2) selected retirement systems, (3) quasi-governmental retirement systems, (4) state-run retirement systems; and, (5) private-sector Utah companies of comparable size. Figure X shows the results of our comparison.

Figure X
Summary Comparison Between URS and Other Organizations
1996 Deputy Director Compensation

Organization	Average Base Salary	Average Bonus & Other Compensation	Average Total Compensation
Intermountain States	$ 55,274	-0-	$ 55,274
Selected States	128,724	$2,113	130,837
Quasi-Government	117,258	2,342	119,600
State-Run	65,039	-0-	65,039
Utah Private Companies	127,248	23,460	150,708
URS	**$80,993**	**-0-**	**$80,993**

URS's Deputy Director is paid 47 percent more in base salary and total compensation than deputy directors in surrounding intermountain states; however, URS's organizational size is much larger. In addition, URS's Deputy Director is paid 25 percent more in base salary and total compensation than deputy directors in state-run retirement systems, even though URS's organizational size is similar. On the other hand, URS's Deputy Director earns 38 percent less in total compensation than deputy directors in selected retirement systems; however, URS's organizational size is much smaller. Also, URS's Deputy Director is paid 32 percent less in total compensation than other deputy directors in quasi-governmental systems. Again, however, the organizational size of URS is much smaller. In addition, the Deputy Director makes 46 percent less than second-level executives in Utah's private-sector companies.

So far, all comparisons have been made without specific regard for the size of the organization or the varying levels of experience of the executive directors. We think this analysis is critical in this case because in most of the market comparisons done, URS's assets have either been much larger or much smaller than those in the comparison market. It particularly concerns us that URS's assets are 80 percent smaller than those systems chosen as comparable. There has been extensive research demonstrating that CEO compensation is significantly related to factors such as organizational size and experience. In other words, the bigger the organization, the higher the CEO's salary. Given this, we wanted to determine if a similar relationship could be found from the data collected from the 21 systems in our survey. If a relationship was found, an expected salary could then be determined based on those factors found to have a significant relationship with CEO salary.

URS's Executive's Salaries Appear Reasonable

When organizational size, education, and total years of experience are considered together, salaries currently paid to URS executives appear reasonable. Our model predicts total compensation of $98,329 for the Executive Director and total compensation of $81,285 for the Deputy Director.

A wage survey was done for the top two positions in 21 retirement systems nationwide. The following information was gathered from each of the systems surveyed: (1) position title; (2) 1996 salary; (3) 1996 bonus; (4) 1996 other compensation; (5) 1996 total compensation; (6) assets of the fund; (7) number of active members the retirement system serves; (8) number of full-time equivalent employees; and (9) experience and educational level of the executive director.

When a correlation analysis was performed on the above factors, it was determined that organizational size (as measured by a composite of asset size, number of system members, and number of full-time equivalent employees (FTE's)), education level, and total years of experience were all highly correlated to an executive director's salary. In other words, the bigger the organization, and the more education and experience the executive director had, the larger the executive director's salary. All three of these factors were predictive enough to be included in the regression analysis.

A regression analysis was performed on these data using organizational size, education and experiences as the three independent variables and executive director total compensation as the dependent variable. This analysis predicts that, given the size of URS and the experience and educational level of the Executive Director, the total compensation of the Executive Director should be $98,329. In addition, the salaries of 68 percent of all the executive directors are expected to fall within the range of $70,461 to $126,197. A range of 68 percent encompasses all salaries that are within one standard deviation of the mean. The total compensation of

URS's Executive Director is $94,370, or 4 percent less than predicted. In our opinion, the total compensation of URS's Executive Director appears reasonable.

A standard practice for estimating the compensation of vice-presidents is to calculate their compensation as a percent of the executive director's compensation. Using percentages calculated from the 21 systems surveyed, we estimate that the Deputy Director would be paid $81,285 in total compensation. Further, the salaries of 68 percent of all deputy directors are expected to fall within a range between $58,250 to $104,327. Currently, the Deputy Director makes $80,993, or .3 percent less than predicted. In our opinion, the total compensation of the Deputy Director is reasonable.

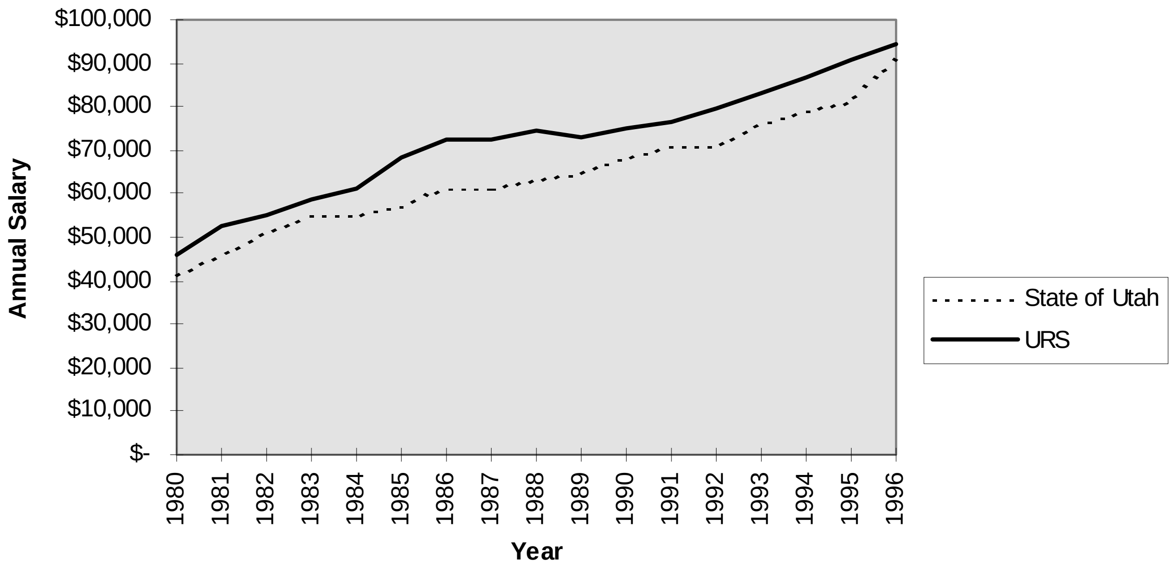
URS uses the Utah state government as its market comparison. In our opinion, since URS's organizational size matches other state-run retirement systems and since URS uses state government as its market comparison, this combination accounts for why URS's executive salaries appear reasonable.

URS Compares Primarily to the State Market

Utah Retirement Systems (URS) Executive and Deputy Director salaries closely resemble salaries paid to department directors in Utah state government. Historical salary trends show URS follows Utah state government compensation practices.

URS's executive salaries are slightly higher than state department head salaries, but still historically reflect the increases and trends of the state pay plan. URS became a quasi-governmental agency in 1981. The URS has followed the state pay plan since approximately 1989 as a result of a legislative audit. Since 1989, URS has chosen to follow the state pay plan and awards merit increases, promotions, and cost-of-living increases to employees in accordance with state employee increases. According to the URS Human Resource Director, URS identifies the Utah state government as its comparable market. Thus, although the Executive Director's salary is set by a board, it is not unlike the salaries of the larger state department executive directors. Figure XI shows the salary trends for URS's Executive Director and for executive directors of the larger state departments.

Figure XI
Salary Trends for URS Executive Director and State of Utah E-5 Executive Positions 1980-1996



The historical salary data show that, with the exception of the period between 1985 and 1988, URS followed the state in setting executive salaries. In 1996, the URS Executive Director earned $94,370, or 4 percent more than the Utah state government E-5 average executive positions, which paid $91,200. Further, the state executive position's salary has increased an average of 5 percent from 1980 to 1996 while the URS Executive Director's salary has increased an average of 5 percent from 1980 to 1996. Based on these data, URS salary levels appear consistent with Utah department head salary figures.

In summary, it is our opinion that the compensation practices at the URS are moderate. While the URS Executive Director and Deputy Director were comparatively low in many of the comparisons with other retirement systems, URS was either much smaller or much larger in terms of asset size in many of the comparisons. When organizational size, education and experience of the executive director are correlated with salaries, current executive salaries appear reasonable. URS compensation practices appear moderate because URS chooses to use Utah state government as its comparison market.

While URS salary structure closely resembles Utah state pay schedules, URS is interested in compensating their Executive and Deputy Directors at a marketplace that they feel represents their level of responsibility and quasi-governmental status. What is an appropriate comparison market is a question that needs to be addressed. We feel it is a policy decision of the Legislature to decide how URS and all quasi-governmental organizations should compensate their executives.

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Chapter VI
Utah Housing Finance Agency
Executive Compensation is Comparatively Moderate

The Utah Housing Finance Agency's (UHFA) total compensation for the two top executives is moderate when compared to five different markets. From our analyses we found that the total compensation for the UHFA Executive Director are similar to intermountain states' housing agencies and quasi-governmental agencies we surveyed, but below selected housing agencies and private companies of like size and organization. In addition, we found that compensation for the Deputy Director of UHFA is most similar to the intermountain housing agency markets. We also performed statistical tests on our data and determined that total compensation for the UHFA executives is justified by the size of the agency and the years of experience the executives have. Because the Utah Housing Finance Agency salary policy is guided by the State of Utah Pay Plan, executive compensations are moderate. The UHFA voluntarily follows this plan and has stayed congruent with state employee increases since achieving independent status.

We have divided our analysis into five markets for comparison: (1) intermountain housing agencies; (2) selected housing agencies; (3) quasi-governmental agencies; (4) state governmental agencies; and (5) local private-sector mortgage companies and banks. In order to compare UHFA to these markets, we surveyed the following nine state housing agencies: Colorado, Idaho, Maryland, Montana, Nebraska, Nevada, New Hampshire, New Mexico and Wyoming. Seven of these agencies are quasi-governmental and two are classified as purely governmental. In order to preserve the accuracy of the data, we agreed to keep the identity of the individual states confidential. Included in the sample of nine housing agencies is a sample of selected agencies provided to us by the Executive Director of UHFA. These agencies were chosen by the Executive Director because they are similar in terms of size, organization, and function. Finally, we examined executive salary data from the Utah state government to determine how salaries have increased historically. This analysis confirms that UHFA is increasing executive salaries at a rate similar that of state government.

The Utah Housing Finance Agency was created in 1975 within the Department of Community and Economic Development with the legislative mandate to help provide affordable housing for lower income citizens of the state through low interest mortgages. In 1985, the Utah Housing Finance Agency became an independent state agency (**Utah Code** 63-44a-2) and in so doing was exempted from the State Budgetary Procedures Act, the State Money Management Act, the Funds Consolidation Act, the Utah Procurement Code, the Utah State Personnel Management Act and the Administrative Services Act.

The UHFA is unique from the other three organizations because by statute, the executives' salaries, although set by the board, must be approved through the Governor. The current Executive Director and Deputy Director have remained in their positions at UHFA since 1985, when UHFA achieved quasi-governmental status. These two positions compose the executive-level positions at the Utah Housing Finance Agency. The Executive Director reports to the Board of Directors of UHFA and is primarily responsible for managing all aspects of operations for UHFA. As of June 1996, the UHFA recorded current assets of nearly $1.5 billion.

The following figure shows the averages for each of the five markets we analyzed and the UHFA Executive Director's salary and compensation for 1996. We have included average base salary and bonus and compensation information separately for comparison's sake. From this figure it is evident that the individual markets vary in executive compensation; however, UHFA is within the high and low range of market averages.

Figure XII
Comparison of UHFA Executive Director With CEO's of Other Organizations 1996 Compensation

Organization	Average Base Salary	Average Bonus & Other Compensation	Average Total Compensation
Intermountain Housing Agencies	$ 90,257	$ 3,850	$ 94,107
Selected Housing Agencies	106,019	5,183	111,202
Quasi-Govt. Housing Agencies	95,826	5,757	101,583
State Govt. Housing Agencies	83,842	-0-	83,842
Utah Private Companies	N/A	N/A	181,858
Utah Housing Finance Agency	**$ 93,351**	**$2,500**	**$ 95,851**

The following is a discussion of each of these five market comparisons from Figure XII, as well as our analysis of the data. The data we have included represent reported responses only. In some cases, information was not available or not reported by the organizations. Although we did not include all possible comparison markets, we feel that the data reported in this chapter provide a reasonable illustration of how the Utah Housing Finance Agency compares within selected housing and finance markets.

UHFA Executive Director Compensation is Within Selected Market Averages

The Utah Housing Finance Agency Executive Director's compensation falls between the two lowest and two highest of five market averages we analyzed. This report reflects 1996 salary data as well as bonuses and other compensation, including car allowances. A standard amount was added if a car was provided for personal use. Other compensable items such as organizational dues and cellular phones were not regularly occurring and were not included in our analysis. The comparison markets we examined in order of discussion in this chapter are: (1) intermountain housing agencies; (2) selected housing agencies; (3) quasi-governmental housing agencies; (4) governmental housing agencies; and, (5) local private mortgage companies and banks. Generally, the UHFA executive compensation is comparable to the intermountain, quasi-governmental and state government compensations.

Intermountain Housing Agencies

Executive directors in intermountain housing agencies report total compensations that, when averaged, are similar to the Utah Housing Finance Agency Executive Director's compensation. We wanted to determine what the average base salary and total compensation for executive directors and other executive positions are for the regional market in the intermountain area. We surveyed six intermountain states to determine the total compensation for the top two executives in each housing agency for the years 1992 through and including 1996. The states we surveyed were Colorado, Idaho, Montana, Nevada, New Mexico and Wyoming. Arizona was not included because it does not have a comparable agency for housing finance as do the other six states.

The Executive Director of the Utah Housing Finance Agency is paid comparable salary and compensation to intermountain housing agency executives we surveyed. The base salary range for the intermountain housing agencies for 1996 is $44,202 to $143,000 and the total compensation ranges from $44,202 to $148,100 dollars. The Executive Director of UHFA received $93,351 in salary in 1996, which is within this range and 3 percent more than the average current salary of $90,257 for intermountain housing agency executive directors. When bonuses and other compensation are included with base salary, the average total compensation of intermountain executive directors is $94,107, whereas the UHFA Executive Director receives $95,851 or 2 percent more than the average. Overall, the UHFA Executive Director's salary tends to reflect this regional market.

In addition to salary data, we asked for information about compensable items other than salary. Generally, bonuses, use of company cars, and car allowances were not substantial for the intermountain housing agencies. From our survey, we found that two executive directors received bonuses in 1996 as did UHFA's Director, in his case for the first time in seven years. Historically, the UHFA Director's three bonuses have been less than or equal to 5 percent of his base salary, the latest of which amounted to $2,500; similarly our survey indicated that bonuses are not common in the intermountain states. Two of six agency directors surveyed had personal use of a company car and an additional two agency executives had a monthly car allowance of $425 and $400 per month, respectively, whereas, the Executive Director of UHFA does not receive a car allowance or use of a vehicle.

A study conducted by the State of Utah Department of Human Resource Management (DHRM) in 1997 also concluded that UHFA executives are paid comparably to western state housing executives. The report issued to the Board of Directors of UHFA states that the Executive Director and Deputy Director salaries are almost exact averages for the western market at 1 percent above market and 2 percent below market, respectively. These figures were derived from an analysis of executive salaries from seven western state housing agencies.

It is important to note that the asset size for Utah Housing Finance Agency is the largest of all intermountain housing agencies at nearly $1.5 billion. The next largest agency lists their assets at $1.2 billion and the low is $529 million. In addition, UHFA employs 30 full-time equivalents (FTE's) with the intermountain agencies ranging from 18 to 132 FTE's. The Utah Housing Finance Agency does not employ their own agents, but rather uses private-sector banks and mortgage companies as agents. Some other states employ their own agents.

Selected Housing Agencies

The Utah Housing Finance Agency executive compensation is below average when compared to housing agencies of comparable size and organization throughout the United States. We surveyed six selected housing agencies to determine the total salary and compensation for the years 1992 through 1996: New Hampshire, Colorado, Nebraska, Idaho, Maryland and Wyoming. These agencies were identified by the Executive Director of UHFA and the National Council on State Housing Agencies. Of these agencies, five are considered quasi-governmental, with only one classified as a purely governmental agency. This survey was designed to determine what the selected housing agency market looked like and how UHFA's executive position salaries compared. This comparison also provided UHFA an opportunity to define the market they most resemble.

The average high and average low salaries for the selected agencies is considerably greater than the intermountain agency group. In 1996, the base salary range was $92,700 to $143,000, and total compensation ranged from $98,800 t no $148,100 dollars. The Executive Director of UHFA falls within the base salary range but not the total compensation range. The average current base salary for the selected agencies was $106,019, which is 14 percent higher than the UHFA Executive Director. Average total compensation of selected executive directors is $111,202, whereas the UHFA Executive Director receives 16 percent less.

Other compensable items, such as bonuses, use of company cars, and car allowances played a larger role with this group of agencies than in the intermountain states. As mentioned above, the UHFA Executive Director does not receive a car or car allowance. Further, bonuses in UHFA are not common. From our survey, one of six executive directors had personal use of a company car, an additional three had a monthly car allowance ranging between $400 and $425 per month, and one received mileage reimbursement. Only two executive directors received bonuses or other compensation in 1996, the largest of which was $13,600 dollars. In terms of agency size, the Utah Housing Finance Agency is again the largest with assets of $1.5 billion. The next largest selected state lists their assets at $1.3 billion and the smallest at $2 million.

Quasi-governmental Housing Agencies

Compensation of the UHFA Executive Director closely follows the quasi-governmental market. Of the nine agencies we surveyed, seven are classified as quasi-governmental, with the remaining two claiming governmental status. Executive compensation figures for the quasi-governmental agencies we surveyed seem to closely approximate UHFA executive compensation. Overall, the ranges for salary and for total compensation are within 6 percent of the UHFA Executive Director.

The average total compensation for the quasi-governmental agencies is $101,583, which is 6 percent greater than the UHFA Executive Director. The range for total compensation is considerable, with the highest paid executive receiving $148,100 and the lowest receiving $44,202, more than $100,000 difference. If these two extremes are not considered in the analysis, the range is $105,989 for the high and $98,800 for the low. The average for the quasi-governmental agencies would then be $103,755, or 8 percent greater than the UHFA Executive Director. If only base salaries for 1996 are compared, the difference is only 3 percent, with the average for the quasi-governmental agencies at $95,826 and the UHFA Executive Director receiving $93,351. The range for base salaries is $44,202 to $143,000, while bonuses and other compensation for the quasi-governmental group averaged $5,757 in 1996. Of the seven states we surveyed, five received a bonus or compensation above the base salary, amounting to at least $4,800.

Governmental Housing Agencies

Compensation for the UHFA Executive Director falls between the two state governmental housing agencies we surveyed. Because there are only two states in the sample, the data are inconclusive and do not show a general baseline; however, we have reported them to show the differences in salaries. From the data we collected, the salaries vary widely and bonuses are not given. The average total compensation for the governmental agencies is $83,842 or 14 percent less than the UHFA Executive Director. It should be noted that one of these states is in the process of upgrading executive salaries. This state has performed a salary survey of surrounding states and anticipates salary adjustments in the next fiscal year, possibly as great as a 20 percent increase. If these changes go through their legislature, these figures would be more meaningful and would bring the states closer together.

Local Private-sector Mortgage Companies and Banks

The executive positions of the UHFA fall below private-sector market averages for Utah CEO compensation. Although UHFA's function is similar to the private-sector market companies we examined (i.e., both provide mortgage money for first-time home buyers), the salaries and compensations for executives are dissimilar. We analyzed data compiled by the Utah Department of Employment Security to see how the local private-sector market for mortgage executives and consultants compared to the salaries of the UHFA executives. Predictably, the private-sector market salaries are considerably higher for comparably sized organizations.

The mortgage executives' average base compensation from local, similar size companies exceed the compensation of the Utah Housing Finance Agency Executive Director by 90 percent. The high totaled $290,600 and the low was $121,165 for 1996. These figures include year-end bonuses which, for the private-sector financial institutions, are significant. As mentioned earlier, the UHFA executives rarely receive bonuses but when they are given, the bonuses amount to less than 5 percent of the base salary of the executive.

In addition to this analysis, in 1990, the UHFA contracted with William M. Mercer, Incorporated, to assess the compensation levels for the Executive Director and Deputy Director. As part of their analysis, the Mercer consultants attempted to identify executives in the regional private-sector market with similar position responsibilities, assets and operating budgets and reporting relationships to a board. They then determined the competitive compensation levels of these executives to compare to the UHFA executives. In a letter to the Board of Directors of the Utah Housing Finance Agency, Mercer reported that the current salaries of the two UHFA executives were "defensible and auditable" and that both executives' salaries were below the lower limit of generally accepted compensation ratios (80-120 percent of market). Specifically, the Mercer report concluded that the Executive Director's compensation appeared to be quite low relative to similar positions in organizations of similar size and reporting relationships.

Another regional compensation study was done by Management Consultants for the Idaho Housing Agency in 1992. This survey encompassed ten city/state housing agencies, including UHFA, and seven financial institutions, consisting of mortgage companies and banks in the west and northwest region. Management Consultants collected data for base salary levels for 18 positions, including executive positions. In 1992, the average base salary level for an executive director of a state or city housing agency was $88,001, compared to $77,900 for the UHFA Executive Director. Regional financial institutions averaged $94,149 for the same year. This represents a 13 percent and a 21 percent salary difference from the averages, respectively.

UHFA Deputy Director's Compensation Falls Below Comparison Groups

The Deputy Director of the Utah Housing Finance Agency received less in total compensation in 1996 than four out of five comparison groups we analyzed. We collected data from the same intermountain housing agencies and selected housing agencies as we did for the Executive Director position. We matched the Deputy Director position with second-level positions in the comparison organizations. The following figure shows the results of these comparisons.

Figure XIII
Comparison of Second-Level Executives of Other Organizations and UHFA Deputy Director
1996 Compensation

Organization	Average Base Salary	Average Bonus & Other Compensation	Average Total Compensation
Intermountain Housing Agencies	$ 74,937	$ 2,067	$ 77,004
Selected Housing Agencies	88,698	2,767	91,465
Quasi-Govt. Housing Agencies	79,979	2,371	82,350
State Govt. Housing Agencies	69,484	-0-	69,484
Utah Private Companies	N/A	N/A	79,438
Utah Housing Finance Agency	**$73,099**	**-0-**	**$73,099**

The deputy directors or comparable executive positions of the six intermountain housing agencies we surveyed are paid comparable base salary and total compensation to the Utah Housing Finance Agency Deputy Director. Average total compensation for intermountain housing agency deputy directors is $77,003, whereas the UHFA Deputy Director received $73,099 or 5 percent less. The low and high for base salary ranges from $39,578 to $106,248 respectively. The UHFA Deputy Director fell within that range with a current base salary of $73,099, or about 3 percent less than the average base salary of $74,937 for intermountain housing agency deputy directors. The average bonus for this group was $2,067; however, the UHFA Deputy Director did not receive a bonus in 1996. In 12 years as UHFA Deputy Director, bonuses have been awarded to the Deputy twice and both times they were less than 3 percent of his base salary.

In addition, a compensation study was done by Management Consultants for the Idaho Housing Agency in 1992, as reported earlier. This survey included 10 city/state housing agencies, including UHFA, and seven financial institutions, consisting of mortgage companies and banks. This study reported that the average base salary for a deputy director from their survey was $67,297 for the state or city housing agency and $67,126 for the financial institutions. Compared to the UHFA Deputy Director's 1992 salary of $63,440, the salary averages were 6 percent higher in both cases.

The Deputy Director of the Utah Housing Finance Agency also receives less compensation than six selected agency counterparts. Average total compensation of selected deputy directors is $91,465, whereas the UHFA Deputy Director receives 25 percent less. Base salaries for the selected deputy directors ranged from $65,800 to $106,248. The UHFA Deputy's salary is on the low end of that range and is 21 percent less than the average base salary of $88,698 for selected housing agency deputy directors. Average bonuses and other compensation for the selected agencies are $2,767, which is similar to the intermountain states group.

When considering only quasi-governmental agencies, which includes the applicable intermountain and selected housing agencies, the Deputy Director of UHFA falls below the average salary and average total compensation. Total compensation for this group is $82,350, whereas the UHFA Deputy received $73,099, or 13 percent less. Average base salary is $79,979, which is 9 percent more than the UHFA Deputy Director, and average bonuses and other compensation for the quasi-governmental group is $2,371 for 1996.

The group whose average salary and compensation fall below the UHFA Deputy Director is the state government housing agencies. This group is composed of the intermountain and selected agencies that reported their status as *governmental* rather than *quasi-governmental*. In 1996, the state government agencies' average total compensation was $69,484, which is 5 percent less than the UHFA Deputy Director. This group did not receive additional bonus or compensation.

Finally, we compared the UHFA Deputy Director's compensation to similar counterparts in local private companies. We collected data on total compensation for five companies of similar size and function for this analysis. The average total compensation for this group is $79,438, or 9 percent more than the UHFA Deputy Director. Year-end bonuses are figured into the total compensation figures, but data on other compensable items was not available for the private companies. In addition, a compensation study was done by Management Consultants for the Idaho Housing Agency in 1992, as reported earlier. This survey included ten city/state housing agencies, including UHFA, and seven financial institutions, consisting of mortgage companies and banks. This study reported that the average base salary for a deputy director from their survey was $67,297 for the state or city housing agency and $67,126 for the financial institutions. Compared to the UHFA Deputy Director's 1992 salary of $63,440, the salary averages were both roughly 6 percent higher.

Executive Compensation is Warranted by Agency Size and Experience

The Utah Housing Finance Agency's executive compensation for the Executive and Deputy Directors is justifiable considering the relative size of Utah Housing Finance Agency and the executives' years of experience. Our consultant performed a regression analysis for 1996 total compensation for the UHFA Executive Director and the Deputy Director positions to determine what their total compensation should be, based on some key factors. To do this we used the salary data from twelve states and performed a regression analysis of executive compensation. The states we used for this analysis were California, Colorado, Idaho, Maryland, Montana, Nebraska, New Hampshire, Nevada, New Mexico, Oregon, Washington, and Wyoming. These are the same states that we surveyed for our market analyses, with the addition of California, Oregon and Washington. We added these states because the regression analysis needed a minimum of twelve states and these three states were the only western states not previously included.

Total executive compensation was computed by adding car allowances to the 1996 salary data for these two positions. Other compensable factors, such as bonuses, dues for professional organizations, car phones and deferred compensations, were not included because of incomplete and inconsistent data. Seven independent variables were included in the test: (1) number of full-time equivalent employees (FTE's); (2) agency status (quasi or governmental); (3) dollar value of agency assets; (4) education level of incumbent; (5) incumbent's years of prior experience; (6) incumbent's years in executive position; and, (7) the number of executives in the agency. From the regression analysis, only two of the seven independent variables were significantly related to the executive director total compensation: number of FTE's and the incumbent's years in the executive position. Other variables such as assets and education were significantly related to total compensation, but they were also highly correlated with FTE's and did not contribute significantly to the formula once the FTE factor was added to the equation.

We found that, based on our regression analysis formula, the Executive Director of UHFA should receive about $91,797 in total compensation and the Deputy Director should receive about $72,262. The actual 1996 compensation for the UHFA Executive Director and Deputy Director is within 4 percent and 1 percent of the regression projections, respectively. For this sample of 12 states, the mean total executive director's compensation was $97,528 with a low and high range of $74,751 and $108,845, respectively.

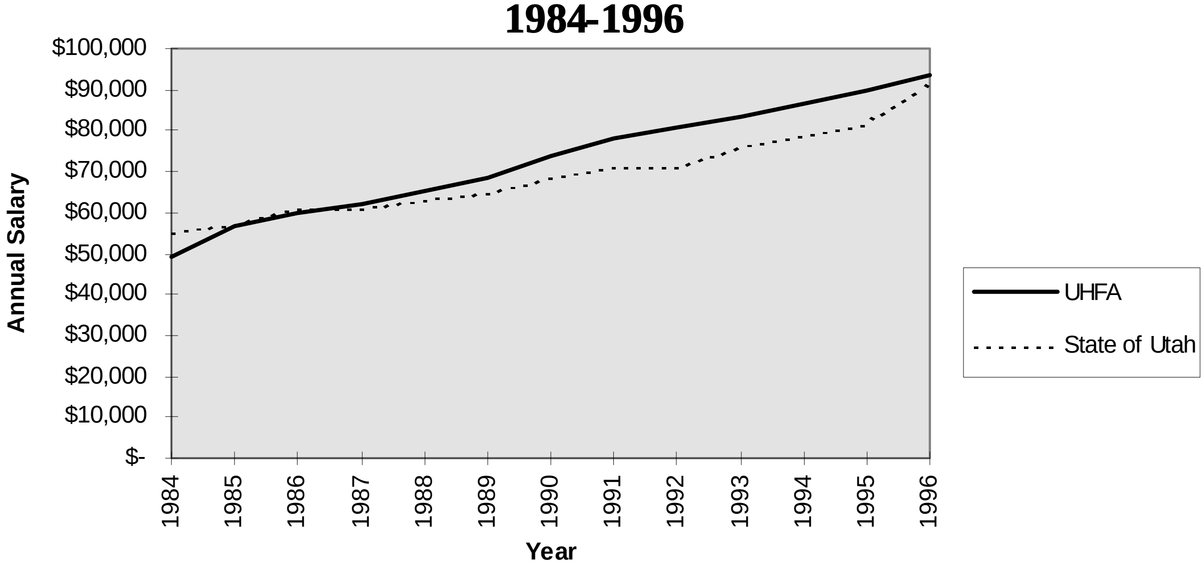
UHFA Identifies With Conservative State Market

The Utah Housing Finance Agency identifies with the State of Utah in terms of pay practices, and considers the state a good comparison market. As mentioned earlier, the UHFA became an independent state agency in 1985. Since that time, the agency has chosen to voluntarily follow the State Pay Plan and awards merit increases, promotions and cost of living allowances (COLA's) to employees in accordance with state employee increases. According to the Executive Director, the agency identifies with the State of Utah as a comparable market and regularly assesses the salary status of UHFA employees against state employees in comparable positions. In addition, the Executive Director believes that UHFA is an integral part of state government, and as such, should compare to the state in terms of salary. He also indicated that the quasi-governmental organizations should not be allowed to choose a salary market, but as government instruments, should look to the state for direction. This is the philosophy that the Executive Director has used to guide salary policy at UHFA.

Although the executive director and deputy directors' salaries are set by a board, their salaries are not unlike the larger state department executive director and deputy director salaries in terms of average annual increases. This section shows our analysis of the UHFA executive salaries against the market the agency strives to match. We found that the UHFA executive salaries are slightly higher than state department head salaries, but still historically reflect the increases and trends of the State Pay Plan.

We analyzed salary data for an executive director position in a large department of the State of Utah from 1984 through 1996. We found that over that span this executive position received an increase averaging 4 percent, annually. In comparison, the UHFA Executive Director received an increase of 5 percent annually for the same time period. Figure XIV shows the historical increases for the UHFA Executive Director and an executive director position over one of the larger departments in the state. We did not figure in bonuses for either position for this comparison because the UHFA director has not received regular bonuses and we only collected salary information on the state position.

Figure XIV
Salary Trends for UHFA Executive Director and State of Utah E-5 Executive Positions 1984-1996



The actual salary figures for 1996 show that the UHFA Executive Director's salary was $93,351 or 2 percent more than the state executive position, which paid $91,200. The greatest increase for the UHFA Executive Director came in 1985 when a COLA and a merit increase were awarded, totaling 16 percent. This increase can, in part, be explained by the change in the status of the agency from governmental to independent in this same year. The next largest increase was in 1990 when the UHFA Executive Director received a merit increase of 8 percent. In comparison, the state executive's largest increase was in 1995 with a 12 percent increase, followed by a 7 percent increase in 1993. One major difference in the salary histories of these two positions is that there were years where the state executive position was not increased, whereas the UHFA position has always received at least a 3 percent increase. In addition, the aforementioned 1997 DHRM report stated that the salaries for Utah Housing Finance Agency staff positions are conservative and reflect the state government market.

The Utah Housing Finance Agency has maintained a consistent and conservative track record in accordance with the state government market for executive compensation. The UHFA has also stayed close to the regional average for intermountain housing agencies. Despite the range of salaries for this market, Utah is considered by other states to be a good benchmark for executive and staff positions. The UHFA executive compensation is below average when measured against selected housing agencies of similar size and organization. These organizations generally compensate their executives more liberally. These same conclusions hold for the Deputy Director position, except that this position is generally lower than the comparative market averages. Finally, the Utah Housing Finance Agency executive compensations are justified by the agency size and the years of executive experience. Overall, the Utah Housing Finance Agency has mirrored state salary increases. The state market and pay policies are the standards that UHFA has chosen to follow for the agency as a whole; however, the UHFA executives have also mirrored the state trend.

Chapter VII
Recommendations

As the preceding chapters indicate, the markets with which an organization compares have a significant effect upon executive compensation levels. This report clearly demonstrates that vastly different compensation amounts are being paid to the three quasi-governmental organizations and the one special district reviewed. However, before considering any specific compensation policies for quasi-governmental organizations, the Legislature first needs to determine if these organizations should operate more like private industry. To begin with, the Legislature may want to categorize the quasi-governmental organizations and the degree to which they are private or governmental. Currently, the quasi-governmental organizations are operating under different philosophies (i.e. private or governmental), and because they are all unique in structure and function, separate consideration should be given to each of the organizations.

Currently, quasi-governmental organizations are like private organizations in some ways. Specifically, the executive board of each quasi-governmental organization, rather than state government, is the controlling body of the organization, with the exception of the Utah Housing Finance Agency, whose board has statutory limitations. As a result, the Legislature has exempted these organizations from many legislative statutes (e.g., the Utah Procurement Code, the Utah State Personnel Management Act) that state agencies must follow. It was thought that by removing these organizations from direct state control, the state may have less liability for their actions. Further, under this scenario, the state also has less control over the actions of the organization. If the Legislature wants more control over the actions of the quasi-governmental organizations (i.e., control over compensation issues), then establishing more policies directing their actions would be appropriate. However, by enacting more statutory policies, the Legislature would be bringing the quasi-governmental organizations under state control. Thus, while more control would be gained, more state liability would also be created.

If the Legislature determines that it wants the quasi-governmental organizations to compensate executives like private industry, then there is little action that needs to be taken. On the other hand, if the Legislature determines that it wants the quasi-governmental organizations to emulate the practices of similar quasi-governmental organizations, then there are issues identified in this report that should be considered. Specifically, it is possible that the Legislature will want to study compensation amounts paid to the various executives of quasi-governmental organizations and consider developing guidelines outlining appropriate comparison markets.

There are many different compensation markets that could be considered. For example, three of the four organizations in this review are, in varying degrees, quasi-governmental in structure. Consequently, we compared them to a market of other similar quasi-governmental organizations. However, we also included in this review compensation paid by government-run organizations (another market) because numerous other states have similar operations and have chosen to limit those operations to a state- run agency rather than a quasi-governmental organization. Within each of these markets are organizations of different sizes (e.g., asset sizes and/or number of employees). There is a direct relationship between compensation paid and organizational size. Generally, the executives of larger organizations usually receive larger total compensation. Consequently, although organizations are similar in structure (such as quasi-governmental), they may be different in size and therefore not as directly comparable.

Finally, for the purposes of this report we identified two other comparable markets: intermountain states and selected states. Obviously the intermountain states are similar to Utah in location but represent varied organizational structures and sizes. This comparison gives the Legislature an understanding of how Utah's neighboring states are compensating for similar services. The selected states were chosen by the auditee as the states they considered most comparable to their organization. However, we noted that these states also often varied in political structure and size. Consequently, as in any survey, all matches are not perfect. However, we believe the compensation data presented in this report are a good representation of the various markets, given the complexity of organizations and the time constraints of the audit.

This review determined that compensation paid by government-run organizations generally lagged behind compensation offered by quasi-governmental organizations. In addition, the intermountain states were always paid less than the states selected as comparable by the organizations. Our review indicates that an organization clearly could justify increasing executive compensation by making comparisons with organizations outside of government (quasi-government or private, non-profit) and that are more distant from the intermountain area. Consequently, when the Legislature makes government-run agencies quasi-governmental, there is often a cost in terms of increased compensation paid.

Currently, the board of directors of each Utah quasi-governmental organization is ultimately responsible for setting executive salary levels within their organizations, with the exception of Utah Housing Finance Agency, whose executive salary is approved by the Governor. Using organization staff and consultants, the various boards have approved executive compensation levels that are vastly different. As compensation differences are discovered by the organizations at the lower end of the pay scale, eventually they seize opportunities to increase compensation or close the gap. In other words, an organization at the lower salary end will use an organization at the higher salary end to justify salary increases that meet or exceed the higher paid organization. This may result in the organization that now finds itself on the lower salary end to increase its salaries to a level that meets or exceeds the organization currently at the higher end. In the human resources profession this is called “ratcheting” or “leap frogging.” Although we are auditing only three quasi-governmental organizations in this review, there are many quasi-governmental organizations in state and local government. Further, we believe that some organizations may consider themselves underpaid relative to WCFU and may consider increasing their salaries unless the Legislature develops a policy regarding compensation for executives and board members of quasi-governmental organizations.

Recommendations:

1. We recommend that the Legislature clarify the varying degrees of quasi-governmental organizations by defining whether they should operate more like private-industry or more like a state government organization.

2. If the Legislature makes quasi-governmental organizations more like state government organizations, we recommend that the Legislature consider studying the compensation issues identified in this report. Following this study, the Legislature may want to develop guidelines and policies for determining executive compensation levels in quasi-governmental organizations and special districts.

3. We recommend that the Legislature more clearly define the Division of Finance's authority to set and approve board per diem rates. In addition, we recommend that the Legislature consider what activities are compensable beyond official board meetings, including preparation time, telephone conversations or other board business. We recommend that WCFU and URS follow the board rates set by the Division of Finance until the Legislature has made a determination on these issues.

4. We recommend that the Legislature determine if *ex officio* board members should receive extra compensation for their board service. Once this determination is made, all statutory language related to the compensation of *ex officio* members should be made consistent.

5. We recommend that the Legislature clarify what is meant by the terms *per diem* and *compensation* particularly in the Division of Finance's statute and all quasi-governmental organizations' statutes.

6. We recommend that the Legislature define what constitutes a conflict of interest between board members and their related organizations. The Legislature should consider including in this definition, performing contract or consulting work for the boards or organizations for which board members serve.

7. We recommend that the Workers' Compensation Fund discontinue their allowance of contracting with businesses as vendors, during the time that an officer or employee of that business is serving on the board, while still allowing normal program participants to serve as board members.

8. We recommend that the service upon which board compensation is based be fully documented by all quasi-governmental organizations.

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Agency Responses