Minutes of the Joint Legislative Oversight Committee
January 30, 2013
Capitol Auditorium
Boise, Idaho

Cochair Senator Dean Mortimer called the meeting to order at 4:30 p.m. Attending the meeting were Senators Cliff Bayer and Elliot Werk, and Representatives Maxine Bell, Gayle Batt, and Elaine Smith. Also present were Rakesh Mohan, director, Margaret Campbell, administrative coordinator, and other OPE staff. Audience members included the following:

Senators Curt McKenzie, John Tippets, and Dan Johnson
Representative Stephen Hartgen and Douglas Hancey
Jeff Youtz, director, and Robin Lockett, budget analyst, Legislative Services Office
Vicki Tokita, administrator, Division of Human Resources
Brandon Woolfe, state controller, Dan Goicoechea, chief deputy controller, and Audrey Musgrave, deputy controller, Office of the State Controller
Don Drum, executive director, PERSI
Brad Foltman, former administrator, Division of Financial Management
Donna Yule, executive director, Idaho Public Employees Association

MINUTES FROM JANUARY 21, 2013

Senator Werk moved to approve the JLOC minutes of January 21, 2013. Senator Bayer seconded the motion, and the motion passed unanimously by voice vote.

REPORT RELEASE: *STATE EMPLOYEE COMPENSATION AND TURNOVER*

Senator Bayer moved to receive the report *State Employee Compensation and Turnover*. Representative Smith seconded the motion, and the motion was passed unanimously by voice vote.

Mr. Mohan said the OPE report has a different focus than the compensation reports issued by the Division of Human Resources and the Hays Group in the House Commerce and Human Resources Committee yesterday. The OPE report discusses turnover issues and state policies for compensation. In the back of the OPE report, the Governor, the State Controller, and the Division of Human Resources provide written responses. He thanked those that helped with the report and acknowledged two former DFM administrators—Darrell Manning and Brad Foltman—for their help. Mr. Bryon Welch, senior performance evaluator, presented the findings and recommendations.

Mr. Welch said that classified employees in Idaho state government earn an average of 85 percent of the state's benchmark pay rate for similarly compensated external jobs. The state has 12,604 classified employees, and 90 percent are paid below the state's established benchmark rates for their position. Of this 90 percent, 45 percent are paid more than 20 to 32 percent below their benchmark rate. Mr. Welch said he conducted a survey of more than 17,000 classified and nonclassified employees and received 11,000 responses. He reported that about one-fourth of the respondents said they are likely to leave their current employment within the next two years. The respondents identified poor pay and lack of opportunities for career advancement as the most common reasons for their intention. He said policymakers should consider two questions when moving forward:

1. What would be an acceptable number of classified employees who earn less than their policy pay rate?
2. How evenly should these employees be distributed below their policy pay rate?

Senator Werk asked whether the study looked at the total compensation package. Mr. Welch said he designed the study to complement the studies being done at other agencies. This study looked at compensation policies and their implementation; the Division of Human Resources' study looked at the total compensation package. Senator Werk asked OPE to link these other reports to the OPE website.

Senator Bayer said the private sector seemed to be at greater risk than the public sector. He cited examples of the IT industry, which thrived in one decade and failed in the next, and of individuals who lost not only their employment but also their pension. He asked about volatility variables in comparing the public and private sectors. Mr. Welch said that the study did not look at the external market.

Senator Bayer asked whether state government had disparity in funding depending on an agency's funding source—general, federal, or dedicated. He asked about ways the state could address the pay of classified employees more uniformly. Mr. Welch said that agencies which receive all their funding from the general fund may not have as much flexibility as those who receive federal or dedicated funds. The bigger problem for state agencies, however, was competition from other organizations for their employees. He said he had spoken with agencies that work closely with federal or private sector organizations, and these agencies indicate that the pay rates of their employees were not high enough to keep them from leaving state employment.

Representative Bell said the state has had less CEC—it has had attrition and more technology. She wondered whether agencies could be part of the solution by reinvesting their salary savings and paying more to fewer employees—employees who work better and smarter. Mr. Welch said the state may want to look at successes in agencies and how agencies have either found salary savings or used technology to bolster their use of personnel funds.

Representative Batt said she appreciated why OPE did not want to duplicate an analysis of the compensation package. However, results from the study survey show that 78 percent of respondents came to state employment because of its benefits, and almost 72 percent will stay because of benefits. She suggested integrating the Division of Human Resource's information into OPE's analysis to see how the compensation package would affect the average salary. Mr. Welch said survey results showed that nonwage benefits draw people to state employment and keep them there, which is something the state can be proud of. The compensation package affects how the state compares with external markets, but benefits will not affect how employees are paid in relation to their policy pay rate.

Representative Batt asked whether Mr. Welch would be able to add benefits to the average annual salary to arrive at an average compensation package. Mr. Welch said he could work with Budget and Policy Analysis and come up with that figure.

Representative Bell noted that she has found that younger employees typically do not value health insurance or retirement as much as their pay rate, which is needed for college loans and starter homes. While the benefit package is attractive to some, it is not attractive to all.

Representative Smith asked for a list of agencies that will be most impacted by retirements. Mr. Welch said he could work with the State Controller to get an age profile of each agency. Senator Mortimer noted that the State Controller had communicated his willingness to get that data.

Representative Smith asked whether the state had considered conducting exit interviews with a neutral party who may be able to acquire more accurate exit reasons. Mr. Welch indicated that compensation was the most cited reason for leaving, but this data was only as accurate as collected and recorded by agencies. He said the Division of Human Resources was trying to provide agencies with a tool, perhaps an online exit interview, to remove any bias for departing employees.

Senator Mortimer asked whether the state had a specific exit interview policy. Mr. Welch said that the Division of Human Resources implemented a standard set of exit interview questions in 2012 intended for all agencies to use.

Senator Mortimer asked whether OPE surveyed departing employees. Mr. Welch said he was not able to get contact information for recently separated employees. He said he had asked current employees whether they had worked for multiple agencies, and if yes, asked about the reason for leaving. Senator Mortimer asked whether contact information could be put in place to collect exit data. Mr. Welch said he would have been able to contact recently separated employees if the state had collected personal e-mail addresses.

Senator Mortimer asked whether employees were surveyed about the rigidity of the pay system. Mr. Welch said he found very few employees who were restricted by the maximum threshold of their pay grade. Ninety percent of employees were below their policy pay rate and had significant room to move through their pay range. Of all classified employees, only ten were earning a maximum pay rate.

Senator Mortimer said he had heard concerns about raising pay for employees who have the same classification as employees in another department because the pay rate could be compared across departments. In speaking with agency human resources, Mr. Welch said he heard about concerns of salary compression—employee X, who is an accountant with one year of experience, is against a ceiling because employee Y, who has been working in the agency for five years, only makes $2 more an hour. Employee X cannot progress above employee Y. Anytime the state increases the minimum pay rates in a range, sometimes certain job classifications are compressed.

Senator Mortimer asked for the comparative ratio of agencies (comparative ratio is the actual rate of pay divided by the state's benchmark rate, known as policy pay rate). Mr. Welch said the statewide average is 85 percent. Each agency's comparative ratio is listed on page 73 of the report.

Senator Mortimer asked whether OPE had compared pay rates with neighboring states. Mr. Welch said that the Division of Human Resources compared the state's benchmark rates with other governments and organizations and found that Idaho's rates were 7.4 percent less. When comparing the benchmark rates only with other state governments, Idaho's rates were 2 percent more. However, Idaho's employees are not being paid the state's benchmark rate, and the Division of Human Resources estimates that Idaho employees make 19 percent less than the external market comparisons.

Senator Mortimer asked about Idaho's successes. Mr. Welch said a significant number—roughly half—of the survey respondents said they were planning to retire at their agencies. Some agencies have been able to find salary savings to compensate employees closer to their benchmark rate or policy pay rate. And even though 90 percent are paid less than their policy pay rate, 61 percent said they were satisfied in their current job.

Representative Smith referred to the Governor's response letter indicating an executive order had been issued for the Division of Human Resources to form and lead an advisory task force. She asked whether the task force would be gathering and reporting information in the 2014 legislative session. The cochair called on Vicki Tokita, administrator, Division of Human Resources, to respond to the report and to Representative Smith's question.

Ms. Tokita thanked OPE for its efforts on the report. She said the executive order had not been signed but was being put together. The state had various compensation concerns such as pay rates, salary inequities, compression, and retention. In addition, the state's salary structure is not competitive with the public and private sectors. To address an earlier question of Representative Smith, Ms. Tokita said the division had worked with the Department of Labor in 2008 to develop an online survey. Agencies were instructed to send a survey link to departing employees' personal e-mail; however, the response rate was low and the survey was discontinued. The division has developed a questionnaire in consultation with agency directors and sent it out in 2012 for agency use in exit interviews. The division continues to improve the questionnaire by balancing the questionnaire with the needs of agencies.

Ms. Tokita said years of low revenue and reduced budgets have created the current situation. She recommended a plan to allow directors to deal with compensation challenges and a plan for a salary structure that aligns the state with its competitors. She discouraged cursory fixes because they may create more problems.

Senator Mortimer indicated he had received a note from the Governor's office that staff were unable to attend. He checked with the audience to make sure circumstances had not changed.

Senator Mortimer called on Dan Goicoechea, chief deputy controller, Office of the State Controller (SCO), to address the report. Mr. Goicoechea commended and thanked JLOC for commissioning the study. He said that total compensation, not just pay rates, was a key factor of consideration—one insurance premium increase to an employee can offset several years of pay adjustments.

In response to Representative Smith's earlier request, Mr. Goicoechea said SCO would generate a report on the age of the workforce by agency. He referred to the Division of Human Resources' written response about tracking individual pieces of workforce data and concerns about programming costs and said that SCO would generate information for the division, keeping costs as low as it could, and indicated that SCO was a cost recovery unit and could not make a profit. He responded to the discussion about exit interviews and said that SCO had data programs which listed state employees' e-mail addresses but had privacy concerns for anything beyond that. He also said a third-party involvement in exit interviews made sense in alleviating bias; however, SCO had concerns about sharing information.

Mr. Mohan said he had briefly spoken with germane chairs and offered to present the report to their committees. A follow-up could look at the status of division recommendations and the task force of the Governor. In reviewing the recommendations and the division's letter, Senator Mortimer said that JLOC should conduct a follow-up. Considering the future work of the germane committees, the Division of Human Resources, and the Governor's task force, Representative Bell asked what JLOC needed to do to move the report forward. Mr. Mohan said a motion could include a follow-up for release in January 2014.

Representative Batt asked whether OPE could integrate portions of the division's study into the OPE analysis and provide a compensation package for the follow-up. Mr. Mohan said he would try; his one challenge would be whether the division's methodology was compatible with the methodology OPE used.

Representative Batt moved to conduct a follow-up study for release in January 2014. Representative Bell seconded the motion, and it passed unanimously by voice vote.

Mr. Mohan updated the work status of projects. A report on charter and traditional school operations would hopefully be released in three weeks, along with several follow-up reports in February and March. The tax policy study was on hold for workload reasons but may be released before the end of session.

Senator Mortimer said that JLOC is welcoming suggestions from legislators on new topics for future study.

Senator Bayer moved to adjourn. Representative Smith seconded the motion, and it passed unanimously by voice vote.

The meeting adjourned at 5:50 p.m.