Minutes of the Joint Legislative Oversight Committee
January 12, 2015
Room EW42, Capitol, Boise, Idaho

Cochair Senator Cliff Bayer called the meeting to order at 3:40 p.m. Attending the meeting were Senators Steve Vick, Michelle Stennett, Elliot Werk and Representatives John Rusche (cochair), 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:

ProTempore Brent Hill, Senators John Tippets, Jim Guthrie, Dan Johnson, Dan Schmidt, and Janie Ward-Engelking
Representatives Neil Anderson, Kelley Packer, Greg Chaney, and Phylis King
Brandon Woolf, State Controller; Dan Goicoechea, Chief Deputy Controller; and Audrey Musgrave, Deputy Controller
Robyn Lockett, Principal Analyst, Budget and Policy Analysis Division
David Fulkerson, Interim Administrator, Division of Human Resources
Shelby Kerns, Budget Bureau Chief, Division of Financial Management
Brad Foltman, former administrator of the Division of Financial Management
Donna Yule, Executive Director, Idaho Public Employees Association

Cochair Bayer welcomed two new members of the committee: Senator Vick and Representative Rusche, who also serves as cochair. Representative Rusche said it was his pleasure to serve on the committee; he has appreciated the work of JLOC and OPE.

Adoption of Committee Rules

Cochair Bayer called on Rakesh to review the rules. Rakesh said every two years JLOC approves rules. The rules governed the operations of JLOC and the OPE and ensured the transparency of policies. The rules outline the selection of topics, the conduct of evaluations, the report process, and the follow-up process. He said JLOC was slightly different from other committees: it is equally bipartisan, it does not take public testimony unless by consent, it can take testimony under oath, and it can subpoena. Rakesh reviewed the process of conducting and releasing evaluations.

Representative Batt moved to approve the committee rules. Senator Werk seconded the motion, and it passed by voice vote.

Report release: Use of Salary Savings to Fund Employee Compensation

Representative Rusche moved to receive the report. Senator Stennett seconded the motion, and it passed by voice vote.

Cochair Bayer called on Rakesh to introduce the report. Rakesh said the study was requested by Senators Tippets and Guthrie. The requesters asked the OPE to evaluate the extent to which salary savings was used to fund employee compensation. Rakesh thanked the Division of Financial Management, the Division of Human Resources, the Office of the Governor, and the Office of the State Controller (SCO). He said the SCO provided financial and payroll data and helped OPE understand the data.

Bryon Welch and Amanda Bartlett presented the report. They said average salary savings of total personnel dollars for fiscal years 2006–2014 was 11 percent. Of that 11 percent, agencies used 46 percent for personnel expenditures, reverted 41 percent, and transferred 13 percent to another expenditure category. Evaluators estimated that the majority of agencies had an estimated salary savings from 3 percent to 25 percent. They detailed the following findings:

- Agencies had discretion to award targeted increases to employees.
- The distribution of salary savings was inequitable among agencies because of variable turnover rates and the lack of uniformity in agencies' budgets for personnel.
- Agencies who adhered to their budgets had little or no salary savings.
- Agencies could not rely on salary savings for long-term planning.

Bryon said that salary savings and a Change in Employee Compensation (CEC) together have not improved overall employee pay. After presenting a list of policy considerations, Bryon recommended policymakers consider other compensation tools to help meet the Legislature's statutory obligations and to provide the type of career progression and market competitiveness that salary savings and a CEC could not address.

Representative Rusche asked whether state agencies knew the accrued liabilities for vacation and comp time balances of their employees. Amanda said state agencies were able to run reports through the SCO databases for balance amounts.

Senator Vick asked how agency-level salary savings exceeded more than 100 percent. Amanda said two agencies had been combined into the Bureau of Occupational Licenses in 2006. The entire fund balances of those two agencies had been reverted and incorporated into the new agency. The funds had a balance greater than the fiscal year 2006 appropriation, which was why the reverted amount was greater than 100 percent.

Senator Vick asked about a point in the report for policymaker consideration to build overtime and leave balance payouts into agency personnel budgets. Bryon said some agencies request funding for overtime and leave balance payouts, but this practice was not consistent across state agencies. Some agencies received funding to cover overtime and leave balance payouts, while other agencies used salary savings to cover those expenses.

Representative Rusche, referring to the use of using salary savings to contract for an open position until that position was filled, asked about the effects of contracting to personnel budgets. Bryon said that contracted services did not come out of the personnel budget; however, agencies could transfer personnel funds into operating where contracted services were paid out.

Senator Bayer, referring to the market comparison of state employees' wages with other organizations, asked whether managerial discretion was considered. Bryon said that market competitiveness referred to policy pay rates and was not considered when comparing state employee wages with the wages of private sector employees.

Cochair Bayer invited the Governor's office to comment, but no one came forward to speak.

Cochair Bayer called on Brandon Woolf, State Controller, to respond to the report. Mr. Woolf thanked OPE and said evaluators did an excellence job with data. He thanked the requesters of the study. He said the Idaho Business Information System (IBIS), supported by JFAC in 2004, was built by the SCO as a data warehouse. Without IBIS, the SCO would not have been able to produce data for this report. The accounting system and the payroll system were developed in mainframe legacy systems by the SCO in the 1980s and 1990s. With support from the Legislature, the SCO received funding to study the possibility of implementing integrated systems. On Thursday, the SCO would be presenting the results of the study, including a budgeting component, to JFAC. He said he agreed with the report that the CEC Committee was the appropriate venue to discuss salary savings levels.

Representative Rusche asked whether SCO systems could track the liabilities of vacation and comp time payouts. Mr. Woolf said his systems already tracked that information, but a new system would tie budget changes made during the year.

Representative Bell said she understood that budgeting from desperation was not practical. She said she was grateful the CEC Committee was meeting again. Some agencies had more flexibility than others, and the report informed us that salary savings was not a fair system. This way of budgeting, she hoped, was going by the wayside. Salary savings covered many things, but JFAC checked budgets a year in advance and took away excess salary savings.

Senator Werk thanked Bryon and Amanda for the presentation, indicating they had produced a great looking report.

Cochair Bayer called on Dave Fulkerson, Interim Administrator at the Division of Financial Management, to address the committee. Mr. Fulkerson said his office participated in several salary surveys to match as many jobs as possible. The surveys revealed that, on average, state employees were about 20 percent behind similar jobs in other public and private organizations. During the great recession, salary savings was the one tool that agencies had to reward employees in absence of a CEC.

Cochair Bayer asked about the diversity of the bell curve. Did some state employees earn a wage more than 20 percent below market comparisons? Mr. Fulkerson said the comparisons were an average; some state employees were paid 25 percent less than average for similar jobs and some were paid more.

Representative Rusche said salary savings probably had the most utility for vacation payouts to employees. He asked about adding a tool to achieve market equivalency for some employees rather than the more expensive resource of contracting. Mr. Fulkerson said the state had some tools available. Agencies had the ability to offer payline increases for certain jobs, which came down to the agency's ability to cover the cost.

Representative Rusche clarified there was not another tool to cover unexpected personnel costs besides asking for a supplemental. Mr. Fulkerson said that was correct. Agencies could ask for one-time funding to avoid leaving a position open.

Cochair Bayer asked Rakesh to comment on needed actions. Rakesh said that because the report offered policy considerations, OPE did not have recommendations to base a follow-up study.

Cochair Bayer asked for consideration of action. Senator Werk said that if SCO did not have the tools to provide more sophisticated data, JLOC's ability to follow up was limited. Cochair Bayer asked whether OPE would be restricted in commenting on future policy action if JLOC closed the report. Rakesh said JLOC could always ask for information, even when a report was closed. He recommended not taking action now. At the next JLOC meeting, he would update JLOC about presentations to the CEC Committee and JFAC, and JLOC could make a decision then.

Representative Batt asked if OPE could provide a one-page summary of the questions from the CEC Committee and JFAC at the next meeting. Rakesh agreed to make that happen.

Rakesh said OPE had printed a limited number of reports because of cost. However, reports were available on the website. He said staff were working on the next two reports, which would be released in February.

In other news, Rakesh said he had received an invitation from the Israeli Association for Program Evaluation to talk about OPE over Skype.

The meeting adjourned at 4:57 pm