STATE EMPLOYEE COMPENSATION INTERIM COMMITTEE

JFAC Room, Statehouse, Boise, Idaho
July 25 & 26, 2005

CORRECTED MINUTES*

(Approved by the Committee)

The meeting was called to order at 1:07 p.m. on July 25, 2005 by Co-chair Representative Bob Schaefer. Other committee members present were: Co-chair Senator John Andreason, Senators Dick Compton, Joe Stegner, John McGee, Bert Marley, Kate Kelly and Representatives Larry Bradford, Ken Roberts, Rich Wills, Anne Pasley-Stuart and Shirley Ringo. Senator Michael Jorgenson & Representative Jana Kemp were absent and excused. Staff members present were Matt Freeman and Charmi Arregui.

Others present on July 25, 2005 included: Ann Heilman and Jay Anderson, Division of Human Resources; Pam Ahrens, Rick Thompson and Ted Roper, Department of Administration; Alan Winkle, PERSI; Andrew Hanhardt and Amanda Brown, Service Employees International Union (SEIU); Jane Kinn Buser and Mark Dunham, Boise State; Tim O'Leary, ISP; Dona VanTrease and Vickie Burnet, Idaho Public Employees' Association; Megann Holmes, Congressman "Butch" Otter's office; Brandon Woolf, State Controller's Office, EIS; Judie Wright, DFM; and Kent Kunz, Office of the Governor.

Co-chair Representative Schaefer opened the meeting by stating that the meeting would be a briefing session to figure out how to pay state employees appropriately and fairly, exploring where the system works and where it does not work. **Co-chair Senator Andreason** added that this committee has a very difficult and important task ahead and expressed his appreciation to all the members of the committee for taking on this task, since it is vital to the employees of the state of Idaho that the committee do this job right. **Representative Schaefer** called attention to the website: http://www.fcw.com/ (Federal Computer Week) where he found information, federally oriented, with regard to improving employees' work conditions and their subsequent output. These improvements for federal employees may be of interest to state employees as well.

Matt Freeman, Senior Budget & Policy Analyst, Legislative Services Office was introduced to review the charge to the committee (HCR22), to outline some of the issues and go over the agenda. **Mr. Freeman** reiterated that HCR 22 created this interim committee to undertake and

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* Corrections to Minutes: Page 66 - The words "I'm here" were deleted. On pages 42, 43, 44, 45, & 50, references to "ADM" should have been "DHR." Those incorrect references were changed. On page 8, paragraph 4, 6th word in line 4 was changed from "than" to "that."

complete the study of the state employee compensation and benefit system and report its findings and recommendations to the legislature. To that end, the co-chairs and **Mr. Freeman** crafted an agenda to give a better understanding of these issues. In order to frame the issues and discussion, the purpose of the first day was to provide background and to establish a foundation upon which the committee could base its findings and recommendations.

Idaho's compensation law is merit based; in other words, a state employee's advancement in pay must be based solely on performance. The state's compensation system does not provide for longevity or seniority, or cost of living adjustments; furthermore, state law provides that it is "the intent of the legislature that an employee may expect to advance in their salary range to the labor market average for the pay grade assigned to a classification." In addition, the state uses the Hay Plan, which is a method of measuring jobs in order to establish a uniform and consistent pay system.

Ann Heilman, Administrator, Division of Human Resources, was asked to provide an in-depth overview of the state's compensation laws, the Hay System, and to answer questions. When state employee compensation is discussed, it is often referred to as total compensation, which is simply the sum of a position's salary plus the value of its accompanying benefits. This can be a significant percentage of an employee's total compensation when you consider that Idaho currently budgets $7,125 per position for health benefits plus an employer contribution to PERSI and other fixed benefit costs. **Pam Ahrens**, Director, Department of Administration, was asked to provide an overview of the state's health benefits package. **Alan Winkle**, Executive Director, PERSI, was asked to give a primer on the state's retirement plan.

The agenda for Tuesday, July 26, 2005, included a presentation by **Brad Foltman**, Administrator, Division of Financial Management, who plays an important role in implementing and approving compensation changes and human resource policies, to wrap up the educational segment of this meeting. With that background, the committee would begin analyzing whether the state compensation laws in the Hay Plan are actually being followed. A presentation by **Ms. Heilman** and **Jay Anderson**, Compensation Policy Advisor, Division of Human Resources addressed pros and cons of the current system, perhaps providing constructive criticism, and possible solutions. A question often asked by legislators is: "How are agencies able to provide salary increases or bonuses at levels that sometimes exceed the funding that was authorized by the legislature for change in employee compensation (CEC) or when there was no CEC authorized at all?" HCR 22 actually charges this committee with reviewing the agency use of appropriated moneys for personnel costs and reviewing temporary merit increases and their funding sources. **Mr. Freeman** was scheduled to take time to then address specific funding cost issues. The agenda for July 26, 2005, also included hearing from select agency directors or their designees about specific recruitment and retention challenges they are experiencing and internal funding methods and policies they use to address those challenges. **President Robert Kustra** from Boise State University was scheduled to speak on behalf of all the four-year institutions on the unique challenges and issues they face in the area of compensation. **Mr. Freeman** asked the committee to discuss the next meeting date and possible agenda items.

Mr. Freeman referred to HCR 22 and the charge to this committee: "BE IT FURTHER RESOLVED that the committee will:

(1) Review the distribution of health insurance costs;
(2) Review the Hay Plan;
(3) Review the concept of merit increases for specific occupational groups;
(4) Review agency specific human resource compensation issues;
(5) Review temporary merit increases and their funding sources;
(6) Review agency use of funding appropriated for personnel costs;
(7) Review any other human resource management issues; and
(8) Develop any legislation or recommendations related to these matters as the committee deems appropriate."

During these meetings the charge to the committee will be covered, resulting in item (8) which will be the next step, having been given the background for the committee to make their decisions regarding the future of state employee compensation.

Senator Stegner requested for the committee section 67-5309B(c) of Idaho Code that lays out current policy with regard to salary, and any other sections that may be of help to the committee and **Mr. Freeman** answered that **Ms. Heilman** would be handing out all statutes relevant to personnel.

Ms. Heilman, Administrator, Division of Human Resources (DHR) was introduced and has had this position since July, 1999. **Ms. Heilman** began by stating that DHR has had the opportunity to discuss state employee compensation and benefits with DHR's CEC committees at length, as well as with JFAC, and expressed hope that with the broad range of backgrounds of this interim committee there will be a better understanding of the challenges that DHR faces. **Ms. Heilman** announced some bad news that **Gabe Weske** had been "pirated" away by Microsoft for double his salary to manage the compensation for one of their many programs; her good news was that DHR had been blessed with a consultant from the private sector, **Jay Anderson**, and introduced him as having thirty years experience in designing, implementing and administrating base pay programs in the public and private sectors. **Mr. Anderson** has a bachelor's degree in political science, a master's degree in public administration and is an expert at what goes on in compensation and benefits in Idaho; he was with J. R. Simplot for fourteen years as Director of Compensation and Benefits and eight years as Vice President and Manager of Compensation Benefits for West One Bank, now USBK. **Mr. Anderson** has also been an adjunct professor as BSU's School of Management where he taught compensation and benefits; he later gave a presentation on the Hay System.

Ms. Heilman began by giving an overview of the state compensation statutes, pointing out that to understand where Idaho is today, it may be helpful to look back in history to see where Idaho has come from. There are many people, including legislators, who have a misunderstanding of our state compensation system based on what it used to be years ago, so her intent was to walk the committee through this. **Ms. Heilman** had sent the committee members a packet of information which included a history of the state employee compensation system, a copy of which is available in the Legislative Services Office. **Ms. Heilman** referred to another packet which was handed out which included illustrations of Idaho's pay schedules and a booklet entitled "State Compensation Statutes, July 2005," all of which are available in the Legislative Services Office. There are some pay schedules hidden away in code but this handout addressed most of the pay schedules. **Ms. Heilman** commented that her job and the statutes that the committee will visit mostly revolve around the classified personnel system or the merit system covering about 13,000 state employees, but what is decided about state employee compensation and benefits also impacts the state's nonclassified workforce, including our higher education system. So adding all the part-time employees, the legislature, the judicial, higher education and the nonclassified workforce, the number rises to about 25,000 employees who will be affected by the work of this committee and the decisions made about state employee compensation and benefits. Idaho has a law stating that nonclassified employees (employees outside the state personnel system) should be treated as similarly as possible to the classified, and that is why the committee's decisions will impact that group as well.

Ms. Heilman continued with some history prior to implementation of the Hay System, pointing out that agencies had the discretion in the early 1970's of what kind of job title or job classification they would give a particular job and slot in a salary schedule; that person got paid accordingly. As you can imagine, there was diversity (some would say chaos) but each agency determined the pay for each job. **Ms. Heilman** referred to Handout A, showing 20 compensation schedule grades and ten steps from 1974; basically employees got a 5% step increase every year on the anniversary date of their hire. The strength of this system obviously was that funding was built in automatically, but it had very little relationship to market. Of course, prior to computers, it was very difficult to do a market analysis incorporating volumes of data with a calculator as your main tool. In 1975 the legislature decided they wanted something different, put out a bid and brought in Hay and Associates, asking for a system to pay jobs in a fair way based on what the jobs required, not the person in them or the department they work for, which would provide internal equity. So, in 1975, the legislature contracted with Hay and they began a system of longevity pay to reward seniority, so every five years an employee got a 2.5% raise up to a total of 20 years with the state. In July, 1977, the Hay System went into effect reflected on Handout B, showing 50 pay grades, still 5% apart and with each pay grade having 7 steps. By then the state had evolved so that the Hay guide chart system (or how you factor these different jobs) had a more fair and objective means of determining the relative value of jobs within the system and there was much greater internal equity and salary surveys began to be used. The difficulty was that this was very labor intensive and time consuming; the legislature had built themselves into the approval process, so if one wanted to change the points given to a job, it could take a full legislative session for that to occur. The compensation schedule obviously was in Idaho code, so that the fluctuations of market issues could not be dealt with.

In July, 1979, the legislature eliminated the automatic step increases and said that state employees' salary compensation would increase based now solely on performance, not on longevity. Jobs were assigned a pay range based on the relative value of the job and employees were assessed as to their performance; this really eliminated the message that even if you were here for another year, it did not mean that your compensation should increase, based solely on that. The difficulty of changing to pay-for- performance, obviously, was that if people move up based on performance then an increase must be delivered, and that delivery has been inconsistent.

In 1988 the pay schedule changed again; obviously, to fund 5% movement was very costly to agencies and for the state, so the steps fell to 2.5% apart, which is a pay raise, but not in such big increments, which looks like very rigid advancement, reflected on Handout C.
In 1993, really a turning point in this discussion in understanding the system the state has today, the legislature and Governor decided to look at the Hay System and our state compensation system; they brought in the Hay Company to do a comprehensive review. The members of this committee have all since gone on except for **Senator Dean Cameron** who is still with this legislature, but was a part of that ten-member advisory panel; they looked at the system and established a new pay grade with 24 pay grades or pay salary ranges and they are approximately 10% apart. The spread from the minimum to the maximum was about 50%; all the pay grades were open (Handout D) showing a minimum hourly rate, a maximum hourly rate and the policy rate which was the mid-point. The idea was that the policy rate should reflect the market. The state found that it was about 15% behind in 1995, and there was a discussion to adopt a five-year plan called "How do we catch up with the market, how do we keep up with the market, and how do we pay state employees who are doing outstanding work?" Obviously this new schedule gave the state much more flexibility and reflected the desire to pay at the market level, not more or less than, to attract and retain good employees and to deliver the quality of workforce that Idaho's taxpayers expect for competent delivery of state services. The weakness as we will revisit over and over, is that now there is absolutely no mechanism that forces increased funding for the salary system.

In 1998 the Hay Associates came back and did a five-year review to see what progress Idaho had made since their last audit, and they suggested the legislature develop a statement of compensation philosophy. Idaho was again about 14% behind market, and Hay Group said Idaho needed to develop a way to budget to fund pay-for-performance and suggested rather than to budget at the entry level of the salary range, the state budget vacant positions at the middle of the salary range. They also recommended that the state remove the cap on bonuses so they were more reflective of the percentage of salary. The legislature in 1998 was very unhappy with the state personnel system, in total. The customers (state agencies) were unhappy with the state personnel system and many of the job applicants were unhappy with the state system. The reason this is important is because the Idaho Personnel Commission had been the subject of a blue ribbon task force by **Governor Batt** in 1996 and 1997, and recommendations were made for change, and those changes were not made. So, in 1998, rather than to go forward with what the Hay Group recommended, those recommendations were not adopted by the legislature; they approved a 3% merit raise and the pay schedule was increased 2%. The pay schedules were 14% behind market when the 2% increase was enacted and that reflects the data on Handout E.

When **Governor Kempthorne** was elected, he had received a briefing about what **Governor Batt's** experience was with the state personnel system, the blue ribbon task force and how those recommendations were unable to move forward; **Governor Kempthorne** proposed that the state create a Division of Human Resources that had one person responsible, an administrator who answered directly to the **Governor**, rather than a five-person commission that was fairly independent. In the 1999 session, the legislature created the Division of Human Resources and their marching orders were to look at the compensation system, do a better job of understanding market, and make better recommendations for progress in a total compensation package.

In FY 2001 the legislature adopted HCR 35, which gave 3.5% merit increases; then the legislature began directing agency directors to make special efforts to focus some of this money in greater amounts to the people at the lower end of the pay schedules. The pay schedule that year was increased 5% reflected on Handout F, pointing out that the pay ranges are minimum hourly rates and are 85%; maximum hourly rates are 125%, and that range will be very important to remember as the committee goes through the law.

For FY 2002, prior to September 11, the session in 2001 was enjoying good economic forecast, the general CEC was 3.5% plus an additional 1% for agency directors to focus on areas where the market was most competitive. For higher education, an additional 2% on top of the 4.5% was given to address the concerns the state had about faculty and the wages in higher educational institutions. The state moved the pay schedule 6.3% so that it would get closer to market, but hammered down that minimum hourly rate and did not change it, so the state's pay schedule is now in the 80% to 125% range; the reason the minimum rate was not changed was that the state did not want money automatically going to people at entry, due to great concern about competition and the market averages.

Handout H reflected FY 2003 compensation schedules; during that year the state was struggling with the aftermath of September 11, 2001. There was no funding at all for employee compensation, but it was proposed; the Governor recommended and the legislature adopted an increase, so that pay schedule was stretched out further and the entry rate was at 75% and the top was 125%. In FY 2004, the economy was again very tough and no increases were given for employee compensation; the pay schedule did not change. The market was moving along, but the pay scale did not change. In FY 2005 there was a 2% merit increase and then the first time additional 1% one-time conditional increase that was given last summer.

FY 2006 just began and there has been no pay schedule change and no ongoing increase for state employee compensation; the 1% one-time additional CEC, based on the year-end surplus level and the compensation level determined last winter, showed that Idaho was behind the market by 14.2%. The pay schedule the state uses today has entry level that is 75% of a market rate that has not been adjusted in many years.

Ms. Heilman then addressed the booklet entitled "State Compensation Statutes July 2005" which may be easier to follow than Idaho Code and section number, beginning with definitions (67-5302), because this affects the personnel system and these definitions impact how people are paid. The Fair Labor Standards Act requires that employees who are paid time and one-half (1 1/2) be classified, titled or grouped separately from those that are not paid time and one-half (1 1/2). Those classifications, those decisions, make a big impact on how much the state has to pay for overtime, and those definitions are in code.

On page 2, a full-time employee is defined and (15) defines "Holiday." Several years ago DHR found out that different state employees were receiving different amounts of hourly time off on holidays because their schedules were different; there is another section in code that says all employees in the same pay grade have to be treated the same when it comes to holidays, so the state has a conflict in that code section, which Ms. Heilman said would be revisited in the July 26th portion of this meeting. Section (15) determines that a holiday is a day exempted from work, paid at the regular rate an employee would be paid if they actually worked. Page 3 is where overtime and part-time employees are covered in statute and page 4 deals with vacation leave. **Ms. Heilman** emphasized these different leave categories because they are an important part of the state's employee compensation policy and when compared to perhaps the private sector, the state may be more or less generous. Page 5 features an interesting feature of Idaho's compensation law; in this section of code it talks about who is covered in the state personnel system and basically that covers everyone, unless they are listed in code, so this is the nonclassified section. **Ms. Heilman** drew attention to section 67-5303 (j) which allows the Board of Regents and the Board of Education to determine who is going to be classified and who is nonclassified, based on their job duties and placement in the state pay schedule. "Officers, members of the teaching staffs of state educational institutions, the professional staff ..." are not classified and the term "'officer' means presidents, vice presidents, deans, directors, or employees in positions ... the state board says have an annual salary of not less than step 'A' ..." (in this pay grade allocation which is pay grade (j).

Ms. Heilman asked the committee to refer back to the Handout H, noting there were no steps but rather an entry range, stating that these employees are treated differently; they don't receive compensatory time. You will hear from those employees, the professional staff at higher education institutions, when decisions are being made that could affect them.

Page 6 is a section of code that talks about implementing this act (67-5304), and when one talks about implementing temporary or permanent increases or bonuses, this an interesting section that limits the authority of the Administrator of the Division of Financial Management. It limits their authority to making sure that the agencies have enough money in their budgets, but that they shall not have to approve employees' pay raise increases, adding that **Brad Foltman** would be covering that on July 26th. **Ms. Heilman** referred to page 7, pointing out that these were rules of the Division of Human Resources, and added that those who were on the CEC Committee have worked patiently through two rather large rule changes. The legislature set up the state personnel system with these directives that the administrator make rules, and that is how Idaho's system is detailed and specified. In Idaho Code on page 7, this starts to talk about all the rulemaking power and authority that the Administrator of the Division of Human Resources has and obviously many of these rules relate to job classifications which determine job title and what pay grade a job will have and how it will be paid. In (b) it talks about relative labor markets and benchmark job classifications so that we can compare all the diverse jobs in the state. That section is very long and continues on with a final rule talking about the state pay shift differential being 5%. That is set in code, so if an employee works nights or weekends, an employee is eligible for this flat increase which is found to have little relationship to the market, and that also will be covered more on July 26th.

Ms. Heilman referred to page 8 (67-5309A) which talks about personnel benefits. This section of code updated in 2004 used to be a section that had two key points:

1. That all classified employees of like classification (so you are in the same kind of job) and pay grade allocation (you are in the same salary range) shall be treated equally with reference to personnel benefits.
2. It used to say that it was the intent of the legislature that from time to time DHR would conduct a benefit survey to compare the level of benefits of state employees to the benefits provided by other private employers within the state of Idaho. This was changed in 2004 to read that annually DHR would conduct a benefit survey, so that is part of DHR's duties now, again emphasizing that it is more about a total compensation package than just salaries.

Ms. Heilman continued on page 9 which refers to establishing salaries (67-5309B) and the administrator's responsibility to determine the relative worth of each job classification. In (c) it talks about the administrator's responsibility to conduct or approve salary and benefit surveys, pointing out the word "benefit" was inserted in 2004 to reflect the law just described. A change in 2004 (d) was a report of the salary and benefit surveys and recommendations for change in salaries, together with their estimated costs based on the competitive labor market average rate for each pay grade, and this shall be submitted to the Governor the first day of December. December was a change in 2004 because that was when the final touches were being put on the compensation change recommendations, and when the Governor developed his final budget. In addition, in 2004, in the phrase "the administrator shall adopt the pay formulas, the salary changes, and the pay schedules as approved by the legislature ..." the words "pay schedules" (plural) were added to give the opportunity to have different pay scales for different occupational groups.

Page 10 is where the Hay System is in state law (67-5309C) and the pay grade schedule shows points that refer to the points given to each job in the Hay Point Factor System that would be discussed later in the meeting. Section (b) the language talks about: "It is hereby declared to be the intent of the legislature that an employee may expect to advance in the salary range to the labor market average rate for the pay grade assigned to a classification." **Ms. Heilman** emphasized that the classification is an employee's job, assigned an alphabet pay grade and the expectation would be that an employee would move to that policy point. The rest of the code section talks about the pay-for-performance indicators and the requirement for a performance evaluation before anyone is given a pay increase. In section (b) (i) it talks about temporary pay grade increase to address market issues, so that aspect is in law to obtain or retain qualified personnel and would be discussed further on July 26th. This was a change in 2000. In section (b) (ii) it talks about employees perhaps being eligible for advancement in pay if their performance so indicates but such in-grade advancement shall not be construed as a vested right. It is clear that the state is moving away from that entitlement to move forward at any prescribed percentage or step. The department director, in agreement with the employee obviously, is in charge as to whether those pay increases are temporary, conditional or permanent. Section (b) (iii) has the description of bonuses being limited to $1,000 based upon excellent performance. Section (b)(iv) is a new section of code describing a bonus being able to be awarded if an employee gives a suggestion that results in taxpayer savings or greater efficiencies. An employee may receive a bonus that is less than that amount up to the limit of $1,000.

Ms. Heilman referred to page 12 (67-5326) regarding overtime compensation and goes back to holiday leave and the first section: " .. declared to be the policy of the legislature .. that all classified employees of like classification and pay grade allocation shall be treated equally with reference to hours of employment, holidays, and vacation leave." The next section makes sure that overtime is allowed, but that piece about holiday is a conflict to be discussed further.

Page 13 (67-5328) refers to the appointing authority. For those not familiar with that term, that is usually the department head or director, but in large agencies would be that appointing authority or person who has the right to hire, fire or make salary changes which is sometimes delegated to other executive staff, so that term is rather generic. That person determines if the employee shall receive cash compensation or compensatory time off and this is an option available only in the public sector.

On page 14 (67-5329) it talks about overtime, who is eligible and who is not, drawing attention to (b) "Those included in the definition of section 67-5303(j), Idaho Code." **Ms. Heilman** called attention to this in reference to the higher education professional staff who are not eligible for compensatory time and this is where that is referenced. Executive, administrative and professional staff employees, those people who by law are not allowed time and one-half (1 1/2) overtime, to receive one hour compensatory time for each extra hour they work over 40 hours. Executives are limited to 240 hours as an accrual cap. Professional staff do not have a cap on their compensatory time, and if they earn that compensatory time during an unusual or emergency circumstance, they can petition to the state Board of Examiners to be paid for that compensatory time. Classified employees who are covered by the Fair Labor Standards Act are eligible for cash or compensatory time at the rate of time and one-half (1 ½) and when that employee separates from the state, the state is required to pay that balance in cash if they have not used that time.

Page 15 (67-5330) talks about rate of overtime compensation being paid at one and one-half (1 ½) times the hourly rate for those covered employees. Page 16 (67-5331) talks about overtime being paid (if in cash) at the end of the next pay period. Page 17 (67-5332) talks about credited state service and this is a way to determine eligibility for different levels of benefits, especially vacation leave, sick leave and retirement. Credited state service keeps track on an hourly basis of how much time an employee has put in with the state. Page 18 (67-5333) talks about sick leave provided for employees, and there is a mathematical computation based on the hours in a given year, but basically it boils down to about 8 hours per month earned. Page 19 (67-5334) is about vacation time and how that is figured; in this section of code, seniority is still relied upon to determine the package of leave being given to an employee. Basically every five years the amount of vacation earned is increased and that information is provided on page 19. Page 20 (67-5335) puts a cap on the amount of vacation time employees can earn. In the state system, both for budget reasons and probably to handle the workload, vacation does not have a "use it or lose it" feature. In some states, in some private sector entities, a certain amount of vacation is given and if you don't use it by an appointed time, an employee loses that time. That can be very disruptive to workload and budgets, so the state has a system where this vacation time is allowed to accrue and roll over. If an employee is accruing compensatory time, an employee may end up using that time rather than vacation hours, so in the essence of liability management, the state may have come up with these various maximums based on how long an employee has worked for the state.

Ms. Heilman called attention to (7) on page 20 which described the state's shared leave program. If an employee has used all their sick leave and vacation leave and they have or a family member has a serious illness, other employees can offer to share some of their accrued vacation time which has a cash value to the state to be transferred to that employee who has this serious illness or injury up to 160 hours per fiscal year. It does transfer vacation leave to sick leave. In the state, employees may not donate sick leave to this bank because the sick leave program is more like an insurance program in that if you don't use it, it accrues and does not have a cash value.

Page 21 (67-5337) deals with cash for unused vacation; basically when an employee separates from the state, the total unused vacation hours must be paid at the current hourly rate. Page 22 (67-5339) refers to cash for unused sick leave and is in relationship to PERSI but it deals with how that is funded, how it works; and when an employee retires they can have up to half of their unused sick leave transferred to an account that can contribute to the premiums paid for group insurance. This will be explained further. Page 23 (67-5340) refers to police officers, and who when disabled due to an injury arising out of and in the course of duty, an injury induced by a second party, can be put on a leave of absence without loss of salary and benefits for up to one year; this is a special section applying to police officers. Page 22 (67-5342) says there is no severance pay for state employees. Other states have done layoffs, early retirements or buyouts; there is a component where there is a severance package and is used in the private sector in larger companies when they are downsizing. This section of code makes it very clear that no classified or exempt (nonclassified either) shall be eligible for severance pay. This concluded the review of the compensation statutes.

Representative Pasley-Stuart referred a question to page 14 section (2) regarding executive, administrative and professional employees being allowed compensatory time, adding that it was her understanding that it was to be tracked in terms of cost. As someone who works in human resources in the private and public sector, no other system that she is aware of allows professional, executive or administrative personnel compensatory time. They already have the flexibility under the law to go to a family function or to come in late if they worked extraordinary hours the day before, asking if the cost of that has been tracked since it went into effect. **Ms. Heilman** answered that DHR has not been tracking that cost and it was not made clear to her that was a responsibility of DHR; an analysis certainly could be done. A spread sheet was just recently run about compensatory time that directors had been accruing, or not. A point of explanation was given; prior to the 2004 session, there was some frustration that there were some executive staff such as bureau chiefs earning compensatory time and in an unusual emergency circumstance actually having a pay-off of that compensatory time in tens of thousands of dollars approved by the Board of Examiners. In the public sector, there is a feature in the Fair Labor Standards Act that allows the state to maintain the exemption for professional, executive or administrative exempt employees, yet make them track their hours as a way for higher accountability to the public. In the private sector, these people would be paid a salary and their hours would not be tracked; that employee gets the job done at the salary agreed upon or faces the consequences. So much of this system is based upon an hour of credited state service, an hour of vacation leave earned or taken, or an hour of compensatory time. Those people that really want to beef up the accountability of each hour that everyone in state government was basically on the job, came up with the following proposal: starting July, 2004, all executives are to report all hours worked, taken off, and they may earn compensatory time, so the state does have a very hourly system that is unusual when compared to the private sector.

Representative Pasley-Stuart reiterated that having worked with the Fair Labor Standards Act a great deal, it was her understanding that any time an employee was compensated on an hourly basis, they automatically became nonexempt, therefore compensatory time and overtime becomes an entirely different "breed of cat." **Ms. Heilman** responded that the crafters of this compensatory time legislation studied the Fair Labor Standards Act and the new regulations enough to believe that the state was still safe treating salaried exempt employees and having them report hourly because of that section for public service, but **Ms. Heilman** agreed that this whole concept of paying administrative, professional and executive staff compensatory time is one that deserves a good discussion and consideration. She pointed out that the state’s salaries are so far behind that this compensatory time provision does make more attractive that base salary that may be lower than an employee wants to accept, in addition to vacation leave. This all gets tangled together and is a concern that should be studied further, but there are pros and cons to both approaches.

Representative Ringo inquired about Handouts D and E, asking what relationship she should be able to see, thinking that there was a 2% increase between these two schedules. **Ms. Heilman** answered that some pay schedules were actually missing; a visual kind of understanding of what the amounts look like when they change rather than year-by-year, so there is a gap between those two schedules. **Representative Ringo** asked if she saw a missing handout representing the time between Handout D & E, she would assume to see a 2% increase difference. **Ms. Heilman** offered to give the committee that information and also mentioned that at the end of the CEC report, that information is listed for every single year in the CEC supplement, what the Idaho Personnel Commission’s recommendation was for the pay line and the salary increases, what the Governor’s recommendation was and then what happened with that. **Ms. Heilman** agreed to have those copies available to the committee at the July 26th meeting to give a year-by-year following of that.

Senator Compton referred to Handout D and asked where the classified positions might start on that schedule to determine what those employees might be making. **Ms. Heilman** responded that Grade J is typically where time and one-half (1 ½) compensatory time would be paid, but it really is so dependent upon the content of the job and what the responsibilities are and who is required to have overtime or compensatory time paid. **Ms. Heilman** offered to get the committee any kind of reports or comparisons to help the committee in their analysis. **Senator Compton** commented that classified positions are in the range of $41,000 to $120,000 per year and the same rule of compensated compensatory time would apply wherever an employees falls within that range; he sees this as bizarre that there might be an employee making $80,000 to $90,000 per year being compensated for overtime and thinks that overtime is part of having one of those positions. **Ms. Heilman** responded that the state has such a cobbled up system that comments like "bizarre" only echo what she believes, adding that the system is broken and pieces of the system have been reworked over and over. As **Representative Pasley-Stuart** alluded to, who is an expert in human resources, she has never seen this before. **Ms. Heilman** stated that some directors refuse to write down all their hours because they do not want compensatory time, thinking it is wrong, but **Ms. Heilman** has to remind them that this is the law that every employee report their hours and so they must. The system desperately needs all of you at these meetings and your best thinking.

Representative Roberts stated that one question talked about often over the last several years is merit pay; there has been some funding for merit pay in the last few years, but asked for the report on salary savings at any one time during the fiscal year when positions are open within any department. In the past, funds have been used to pay some of those merit pay increases and **Representative Roberts** asked for an accounting of that information because he believes this to play a huge role in looking at the whole package of what the state does for compensation, whether in benefits, salaries or merit pay increases. **Mr. Freeman** responded that he would be covering salary savings and this whole issue of ongoing salary savings versus one-time salary savings on July 26th, and will run through a model of how that can be calculated, adding that the Controller's Office can provide information for further reports.

Senator Stegner inquired about definitions of classified, exempt and nonclassified employees, commenting that it seemed to him that some people tend to commingle the term "exempt" and "nonclassified" when in fact if he reads the statute, exempt means they are exempt from the overtime laws applicable in federal law and nonclassified is this definition in section 67-5303, dealing almost exclusively with those designated by the Board of Professional Technical Education. He asked if this is being read correctly. **Ms. Heilman** answered that **Senator Stegner** was absolutely right that the word "exempt" is used in a variety of circumstances and gets very confusing when talking about the state personnel system. It is used in relationship to the Federal Fair Labor Standards Act whether you're covered or exempt, covered meaning that employers must pay employees time and one-half (1 ½) if they work overtime, but set that aside and then it is used as "are you exempt from the state personnel system" meaning are you nonclassified? That is very confusing and is just part of the challenge of the system, but it is not just in higher education, it is all of those positions not covered by the state personnel system which are referred to as "exempt" and they may, indeed, be covered under the Fair Labor Standards Act.

Senator Stegner went back to the term "nonclassified" and commented that in the definition it uses the term "exempted" but they are exempted by section 67-5303; on page 5 (67-5303), he asked if (a) through (j) are all nonclassified. **Ms. Heilman** replied "yes" and that there were still several pages that were missing because there are more employees past (m) on page 5. These were not included because the biggest issue for the discussion about compensation was in (j) which is when those people are not eligible for compensatory time. The list of who are nonclassified does extend and that list can be given to the committee, since there are another 10 or so categories. **Senator Stegner** requested that page of missing categories. **Senator Stegner** commented that, in reference to pay-for-performance or merit pay considerations, 30 years ago the state was roughly behind market 14-15% and the analysis provided to CEC this last legislative session (2005) showed that the state was now behind market 14.2% which would indicate that all of this examination has not resulted in any improvement in the attempts of the state of Idaho to bring policy up to market and asked if that was a correct assumption. **Ms. Heilman** responded that she would agree.

Senator Andreason inquired about nonclassified exempt; there are areas of state government whose employees are exempt from the working conditions under which 67 covers them, for instance all of the elected officials which would include the legislature, are exempt from 67. That is something to keep in mind when discussing who is covered and who isn't, who is exempt and who isn't, who is nonclassified and who isn't . This would include a very large number of the employees that the legislature works with, the legislative employees and those of the elected officials the legislature works with, including the judges and others.

Ms. Heillman then addressed the Hay System or the Hay Plan and had given the committee a copy of "Understanding the Hay System" a copy of which is available in the Legislative Services Office. The Hay Plan has been described or referred to as the problem or reason that the state has not made any progress or is behind the market and it is not the way the state pays employees, it is a method for figuring out what jobs are worth. **Jay Anderson** was asked to give the committee a briefing on the Hay System to better understand where this system is in relationship to the state's compensation system because it does form a skeleton for our system, but it certainly does not address the market situation.

Jay Anderson spoke next and gave a presentation entitled "Understanding the Hay System" a copy of which is available in the Legislative Services Office. He began by explaining that early in his career he worked with the Hay System because at that point in time it was before computers and the vast market data available today. The Hay System and others were used widely both in the public and private sector. At West One Bank, a factor point system was used that was patterned after the Hay System; they moved away from the Hay System and then used an in-house system which eventually drew them closer to market, and his experience with J. R. Simplot was the same. They also had a Hay-like system that was utilized and eventually went to a more market-driven system. **Mr. Anderson** explained that the intent of any job evaluation system is to determine the relative value of one job against another within an organization or company. The idea was to measure the job and not the person in the job and to measure what that job is worth in the organization when the employee is working at an acceptable level of pay. The Hay System was developed by Edward N. Hay & Associates back in the 1950's and began as a factor comparison method; rather than compare whole jobs saying one job is bigger than another job, they broke it up into compensable factors within the job, the idea being that a compensable factor is a job attribute that is used as a basis to determine whether one job is of greater value than another within the organization. In addition to that, the Hay System uses guide charts and it was suggested that the committee visualize a ladder and each rung is worth more points; within that particular rung they define elements of a compensable factor that are greater within a job, so as you go up the ladder with each compensable factor the value of the job increases.

There are several examples of compensable factors, some of which are mentioned in the Equal Pay Act which are skill, effort, and responsibility. Hay, in developing their system, used very similar factors and these were: know-how, problem solving, and accountability. The factors within the Hay System are approximately 15% apart. When the system was developed, they used work that had been done to determine what was called a just noticeable difference. If one would take a glass of water and it was half full and added more water, asking if the difference could be noticed, at the point where they said a difference could be noted, they measured that and did a number of studies and came up with 15% as being what is a typical just noticeable difference in all of these studies. All of Hay's factors in terms of dimensions are about 15% apart. Know-how is the sum of every kind of skill, however acquired, for acceptable job performance. The Hay System has 3 major factors and each of those factors has dimensions or sub-factors within it and under know-how they try to measure knowledge in three different areas: (1) specialized, technical or practical knowledge (2) managerial knowledge and (3) human relations. **Mr. Anderson** called attention to a page in his handout entitled "Know-How" and at the bottom are three different jobs actually within the Idaho state government system. Each of those sub-factors are defined and within each of these levels there is additional narrative (not seen on the handout example) of how one determines what level a particular job falls within in this particular factor. The positions (A through H) refer to technical knowledge required and across the top (I-IV) refer to managerial and human relation skills.

The second factor Hay uses is problem solving which is the amount of original "self-starting" thinking required to analyze, evaluate, create, reason, arrive at, and make conclusions. Under that factor Hay looks at both the environment in which an employee works in doing the job and also the change the employee has to deal with in that particular job. Hay also says that an employee thinks with what they know; one needs a body of knowledge with which to work and that body is used to do a particular job, so Hay makes the problem solving component a percentage of know-how. A page in the handout entitled "Problem Solving" was referred to, showing that component a percentage of know-how, and within three jobs a percentage is shown that converts to a number of points for problem solving and is derived by taking a percentage of what a particular job received in the know-how category.

The last factor is accountability and is defined as the answerability for action and for the consequences of that action. It is the measured effect of the job on end results. It has three sub-factors: (1) freedom to act (2) impact on end results and (3) magnitude. The freedom to act basically talks about the extent of personal procedural or systematic guidance that an employee is given or the amount of control received in the performance of that job. The impact looks at the individual actions taken to produce results. The magnitude looks at the size or how much of the organization a particular job covers. In addition to those three factors that the Hay System uses to go through that process, they also profile jobs by looking at how three factors relate to one another so an up job would perhaps be a sales job or what they call a do job, a position that is responsible for results, so under the Hay System, an uphill job would have more or higher accountability points than the problem solving or thinking part of a job. The level job might be a human resource or accounting job where an employee is responsible both for gathering and analyzing data and for results. A downhill job might be a chemist doing research or market analyst where the thinking component is greater than the "do" component of the position. The Hay System is basically a tool that the state uses to determine the relative value of one job against another within the organization and is a relatively decent tool for doing so. That alone will not keep the state competitive. Traditionally the way the Hay System is used with the market data is once all of the jobs are evaluated, a schematic would be put together showing the Hay points and what those were worth, typically with benchmark jobs or those that are found in most organizations that are typical (journey level accountant, journey level attorney). Then market data is gathered and matched with the Hay points to develop a line of best fit; that would basically be the tool used to maintain competitiveness in the marketplace. The state has done a pretty good job in maintaining the Hay System internally, but they have not continued to keep pace with the marketplace in terms of market data, even though studies have been done. That is probably part of the reason this committee is looking into this system.

Senator McGee asked about page 12 of **Mr. Anderson's** presentation referring to a Financial Specialist ranked at 332 Hay points that says the pay would be at the market average $79,000 and a tax auditor at the same 332 points for $43,734 and asked if that was a typo in the power point presentation, and it was confirmed later that was an error. The figure $39,000 was correct. (After the meeting, Mr. Anderson pointed out to Legislative Services that this figure is not an actual salary, but rather an example of how one would tie Hay points to the market.)

Senator Marley also expressed concern because on that same page 12 a Taxpayer Services Representative with 238 Hay points and $36,005 and a PTV Underwriting Account Executive shows 353 Hay points making less at $35,514 which creates confusion. How do points relate to salary shown on this particular handout? **Mr. Anderson** again suggested this may be a typo, adding that all the Hay points do is attempt to determine the relative job against another within an organization without looking at outside market data. The second column (market average) is basically going to whomever is identified as your market, typically who the state would recruit from or who you would likely lose an employee to. You gather market data on those organizations and come up with a formula for averaging that and compare that against the points to develop a pay line. **Representative Schaefer** asked **Mr. Anderson** to double check those figures that seem to be confusing, pointing out another classification on the bottom two lines, one with 588 Hay points making $74,889 and another with 677 points making $73,326. An explanation to clarify these questions was requested.

Senator Andreason added that the Hay points in the first column are the factored points for the state employees. The market is telling us where the state is compared to the real world with similar financial people, so it is mainly telling us where we are with the market. The fact that there are more points for a lesser salary really has nothing to do with what is being shown. It has to do with the fact that the market is driving those salaries, aside from the Hay points that the state uses. **Representative Schaefer** requested clarification from **Mr. Anderson** to answer questions posed.

Senator McGee suggested this page 12 of the presentation may be more clear if there were an additional column entitled "State Average" so that the committee could make that comparison to Hay points, the market average and what the state average is; that further information was requested of **Mr. Anderson**.

Senator Kelly asked if the Hay System in combination with market factors is still used in the private sector at this time? **Mr. Anderson** responded that yes, it was; it is not used as extensively as it was years ago but is still a useful tool. Market data has become more readily available and computers can be used to massage that data, so companies have been less inclined to go through all of the work and analysis that is required to arrive at the points for the Hay system, but the system is still used.

Senator Stegner emphasized that he thought the committee was missing a big section of the decision-making process; he stated that we know how the points are assigned in statute by 67-5309(c) and the wage scales for the various pay grades but then he asked what the process would be to determine how a job is classified (a) through (x). Somewhere there is a master list showing all those classifications and asked what the difficulty was in the state making adjustments to that to allow for market conditions, not necessarily market, but market conditions that change from time to time? **Ms. Heilman** replied that the danger here is in overwhelming the committee with details and being detracted from the major issues, that being the reason for not presenting more detail. The system the state has built for classifying jobs is okay; the state has gone from committees that used to take months, to professionals and collaborative relationship with most agencies to get the job descriptions, and there are about 1,100 classifications in the state right now. DHR has the responsibility to slot the job into one of those classifications so that there is equal pay for equal kinds of work around the state, or DHR can create a new classification. Then the job is analyzed to determine what the Hay points are for that job; once that is determined as the official classification, then it is slotted into that pay scale based on the Hay points. Those Hay points in law translate into the grade and as the legislature changes the pay schedule, it translates into the cash minimum and maximum. **Ms. Heilman** thinks this works fairly well. There was a question last session as to whether men and women were paid fairly as to the gender gap across the country, and DHR analyzed by job classification; Hay points were assigned, and a cash value was assigned to those points, and the state was fairly close. So the Hay System itself, the mathematical assigning points indicating how difficult or complicated a job is, is serving the state fairly well, but it could be simpler. The Hay System loses its strength because the state has such a broad pay range, and the funding to this market policy rate does not relate to market because there is so much diluted into one pay grade now.

Senator Stegner gave a hypothetical example using nurses who have specialized skills and are in short supply; consequently the market price goes up for nurses, and if there is no adjustment made by the state, then the state vastly underpays nurses which results in rapid turnover. This is not the same issue where, as a rule, the state is 14.2% behind market in policy; this is a separate issue dealing with a special job classification. What is the process the state uses to identify that shortage with a particular problem to reevaluate whether the job classification pay grade is correct? The solution is to raise up nurses in pay grade, **Senator Stegner** assumed. If that is recognized by the state and there is a decision to address this, who makes this decision, what is the process for making that evaluation, and how rapid and flexible is the state in first identifying and then dealing with these kinds of problems?

Ms. Heilman responded that the formal process is the annual salary survey. The informal process is having conversations with agencies who point out they cannot hire or that they are not at market. The difficulty is that some agencies have more flexible funding than others and so gaining consensus on the state needing to make this a budget issue becomes difficult. On page 10 of the State Compensation Statues July 2005 handout, **Ms. Heilman** referred to (b)(I): "When necessary to obtain or retain qualified personnel in a particular classification, upon petition of the appointment authority to the administrator .." (so a department director would petition **Ms. Heilman,** giving the reasons a higher temporary pay grade may be authorized, granted and annually renewed depending on the continuance). The state has one position that shines brightly and that is physicians. In the Hay point factoring, physicians are somewhere around a (Q). Physicians are an (X); the state has given them this temporary pay grade and everyone realizes the state cannot get a physician to work for the pay grade that the Hay System would assign. The difficulty is that even if there is consensus about a market issue, say nurses, and all agencies say the state needs more money for nurses, agencies have to get those raises into their budget. If DHR says to an agency to pay their nurses not in pay grade (K) but in pay grade (P), DHR is giving them an unfunded mandate because they cannot pay outside the range; they cannot pay underneath the pay range **Ms. Heilman** assigns. So the agency would have to lay off other staff to come up with the funds to move their nurses up. The essence of the issue is that the state has to get additional money for these job classifications where the market is so competitive and the state has not been able to get that through the last 3-4 budget cycles due to lack of money. CEC reports show that the state needs extra money and it gets no traction; there are always competing issues, but the system is designed to move those jobs forward and there is no money to do so.

Senator Stegner inquired if the salary survey is the mechanism for making the determination and if this was working adequately in **Ms. Heilman**'s opinion for at least identifying the problem. The fact that this problem can only be addressed through the budget process, which is cumbersome, also very slow and subject to many considerations, is the essence of the bottleneck in the system. **Ms. Heilman** answered that this was a fair description; the authority is allowed, but to force that into agencies and to then force agencies to a supplemental has not gained any support.

Senator Andreason commented that **Senator Stegner** had asked a question that warrants putting on the committee's agenda for a future meeting, a more detailed explanation of how the state deals with those situations being discussed and get into that process in more detail. **Senator Compton** agreed that was an excellent point and emphasized this does seem to be the essence of the problem. The Hay System as far as figuring out the skills, the level of expertise needed and whether there is financial responsibility works fairly well; however, when the state gets out of sync with a number of occupations, one of which is nurses as well as engineers and safety officers, then a solution needs to be found.

Representative Wills pointed out that what he sees is that the state has created an anomaly when the state puts out a one-time bonus and asked for a response about how much that upsets the system since it is not continuous and becomes a headache for directors. In some scales the Hay System on its face value seems to be a good foundation, but he thinks that the state does not have the building standing on that foundation yet. It appears to him that there are inequities that the state has ignored for many years; for example, there are steps that go into administrative steps where an employee would actually make less than the people underneath them, ultimately, because you take away the overtime and suddenly you have considerably far more demands upon their time with less compensation. **Representative Wills** asked for feedback on these serious issues. **Ms. Heilman** responded that who gets paid for overtime and at what frequency and how the total pay results in the total compensation package is of great concern because the state wants employees to progress; however, if management jobs are less desirable financially, then sometimes the state loses employees. The whole concept of compensatory time to people who are not entitled to it by federal law is one the state needs to look at; that total package needs to be examined. As to the one-time bonus, as compensation is studied, the best organizations have good competitive practices in their salaries and they reward excellent performance; more and more companies are rewarding excellent performance with a one-time bonus so the base is not boosted allowing more flexibility with their dollars. However, those same companies are looking at base adjustments frequently so that they don't lose good employees to competitors and they can hire away good people from their competitors if need be. There is a huge issue addressing what the state's base pay program is and do we want schedule adjustments where every employee would get some sort of base adjustment yearly based on what was going on in the market, not cost of living, not entitlement, but what is the base adjustment for market compensation? In what time frame should the state be able to make market? If we hire at market, how do we keep employees at market? The state does need some very serious thought given to a pay program of variable pay (one-time money) and perhaps there would be a fund to agencies for this to occur yearly to reward the best performers. Like other entities, the state cannot keep increasing the base for everyone, so a good mix is what the state needs. There are the right legislators on this committee for the state to arrive at that point, but we can't have a good system where we have base salaries that are out of line and expect one-time bonuses to do anything about that, nor should the state do the opposite and simply disregard the value of variable pay or one-time performance awards. This whole situation needs to be studied to come up with more effective strategies.

Representative Ringo stated that the system is not working well now and expressed concern that there are individuals who work to meet expectations and lose buying power for their families year after year. If the state were to have a compensation schedule which increased by a certain percent, the only people who would be guaranteed an improvement in their salaries would be people who are making less than the new minimum, and asked if that was correct? **Ms. Heilman** answered that another problem the state faces is called compression; every time the pay schedule has been moved and the entry range moves up, those people are automatically given a raise; if there is not money for everyone else, the system bunches up at the entry area and it is very difficult. **Ms. Heilman** offered to do any research the committee requests, working with Budget & Policy, to provide briefing information for the committee.

Pam Ahrens, Director, Department of Administration (ADM), spoke next and expressed appreciation for appearing before this committee to explain benefits for state employees, stating that most employees are enrolled in the state insurance plan and hoped that it was working out for everyone. **Ms. Ahrens** passed out 3 ADM handouts that were sent to state employees: (1) Fact Sheet...Administering Your Health Benefits, July 2005 (2) Benefit Focus on FY 06 Open Enrollment, Office of Group Insurance, May 2005 and (3) Retiree Benefit Focus, June 2005, copies of which are in the Legislative Services Office. The group insurance program instituted in 1975 has been updated with the fiscal year numbers for the end of FY 2005, so the numbers seen reflect June 30, 2005. Important to note was that ADM is charged with insurance management with not only health insurance coverage but for liability and property casualty coverage for the state. ADM handles all the extended coverages bought for liability coverage and the tort claims that are filed. The State Retiree Plan was kept as is until later this year when it will be coordinated with the new part D Medicare to try to wrap around that new prescription drug benefit.

Ms. Ahrens introduced **Rick Thompson**, Administrator for the Division of Internal Management System who is responsible for insurance management within ADM. **Ted Roper** was also introduced as a new employee to ADM, coming from J. R. Simplot, bringing a great deal of expertise and background in insurance management.

Ms. Ahrens stated that ADM each year comes to the legislature to explain what the costs are for delivering health insurance coverage and to request an increase or decrease to provide health insurance and dental coverage for state employees. At this meeting **Ms. Ahrens** focused in on that figure, what the benefit actually is, as well as how much employers and employees are paying. **Ms. Ahrens** gave a power point presentation, a copy of which is available in the Legislative Services Office, entitled "State Employee Compensation Interim Committee – HCR 22 – State Employee Benefit Overview dated July 25, 2005." Total enrollment in the health plan totaled 45,638 employees, retirees and dependents (as of June 30, 2005). Employees numbered 18,307 (includes classified, nonclassified, all employees eligible except for the University of Idaho and dependents); employee dependents, 22,751; retiree dependents 1,443; retirees 3,137. The number of employees has remained about the same from 2004 to 2005 although the number of retirees and dependents has risen.

Benefit programs managed by ADM in FY 2005 in premium payments were shown on a table including medical, dental, life/disability and supplemental life. The state pays 80% of the total premium cost of all these employee benefits listed. For the state medical program, the state pays 90% of the active cost. The state pays 44% of employees' dental coverage. The totals of these four programs were as follows: The state paid $123,521,161; employees paid $17,913,723; retirees paid $13,243,197. The total medical premiums paid were $138,059,902; dental $8,181.631; life/disability $7,376,401 and supplemental life (paid for by employees) was $1,060,147. The total premium cost for all the above benefits for FY 2005 was $154,678,081. Approximately 2,600 employees or about 14% of those eligible do participate in the flexible spending account program.

For a better understanding of the group health cost, a pie chart was shown reflecting FY 2005 Total Medical Plan Costs to give an idea where the money comes from to go into the group health and how it is paid out. A pool of funds goes out to Blue Cross, the state's health care provider, the amount of premiums paid, the vision premiums, the behavioral health (IBHP), what the state's claim costs are and retention (administrative costs that go to Blue Cross and fees at ADM) and the premium tax that is paid to the Department of Insurance for insurance premiums. This year ADM was able to glean about $11.7 million that will roll into FY 2006 (moneys not spent to set a base for the reserve going into 2006). Not all the money appropriated was spent. The amount of claims for every dollar showed that 94 cents or 94% goes to paying hospitals, doctors, prescription drugs, other medical and dental services; retention (administrative costs) was 4.6%; premium tax totaled 1.4%.

Enrollment history was shown, which **Ms. Ahrens** pointed out should be of interest to all of us since it tracks demographic trends. The average employee age within the state is 47 and the average age of retirees is 71; we tend to be older than most groups this size. The enrollment history chart showed enrollment fluctuations for different fiscal years where major changes in plan design were made. When funds are received, if the funds are not enough to cover the current plan design, then there has to be a change in the way the plan design is figured, or the amount that the employee pays for premiums, or the deductible changes, or the co-pay or overall out-of-pocket will go up. The opportunity ADM has when they remarket with an insurance carrier is to buy their discounts with providers, doctors and hospitals and the amount they are going to charge for administrative costs. During FY 2003 the state saw major plan design changes and a decrease in enrollment of 1,700 active employees and dependents. This trend has continued with decreases of active members numbering 230 in 2004, and 95 in 2005; ADM does not believe these reductions in enrollment were solely the result of plan design changes. The state was making significant adjustments to staffing during these years as well as tight budgets. Retiree enrollment increased by about 200 since 2002.
Another pie chart showed the FY 2005 active plan enrollment and total lives covered totaled 41,058 as of June 30, 2005. Sixty-four percent of active employees chose the preferred provider plan (PPO); 36% chose traditional. In FY 2005 the retirement enrollment is completely reversed. Total lives covered totaled 4,580 ; 1,054 chose the PPO (77%) and 3,526 chose traditional (23%).

The next graph showed what the Governor and the legislature have done over the years to continue to fund health insurance coverage. The coverages have pretty much stayed the same but there have been changes in deductibles, in co-pays for prescription drugs and increases in the stop-loss which is fairly high (at the time it is $4,300 for traditional and $3,700 for PPO) and after an employee pays the 80/20% then it kicks in at 100% of coverage. Since 1998 a chart showed what is appropriated for each employee and since FY 1998 the cost has risen from $2,964 to $7,125 in FY 2006, an increase of 245%. This is very reflective of the health care delivery arena as far as cost of health care. The coverage has stayed pretty much the same, the cost for paying claims has risen substantially and retention (administrative costs) has stayed about the same. In FY 2003 and 2004 there were huge increases. The legislature and the Governor have appropriated every year what ADM has asked for to keep the health insurance whole, knowing how that impacts employees.

The next chart showed employee benefit base costs for FY 2006 and the total for each employee is $7,510, broken down into medical insurance at $6,825, mental health $95, dental insurance $205, life/disability was zero, 1.1% salary showed $385. Take into consideration that $3.62 is the amount that is determined by taking the salary times 2,080 hours per year times the hourly salary paid. So, the state has salary on top of that.

Also built into the state's premium rates and costs are the retiree subsidies that the state is required by statute to provide or assist in providing retirees. State agencies put in $8/FTP per month and an employee puts in $8 per month toward the retiree subsidy, so built into the premium shown for a single person was $23 per month; $8 is the retiree subsidy. With 18,300 employees times $16 per month times 12 months totals $3,513,600 that goes into the rate setting subsidy for retirees. This retiree subsidy for FY 2005 is intended to offset the cost of retiree health insurance. The single retiree pays $378 per month if they have no Medicare in the PPO plan.

The last chart showed retiree premiums for FY 2005 totaled $13,243,197 and retiree plan costs were $16,715,102 reflecting a deficit of $3,471,905 and the subsidy amount was $3,513,600. State employee and group health contacts and information can be found at employee.idaho.gov or by calling 1-800-531-0597 or (208) 332-1860 and e-mail address is ogi@adm.idaho.gov. **Ms. Ahrens** expressed hope that her presentation and handouts would provide details about health insurance and suggested it would be beneficial to have a discussion or dialogue of questions not covered.

Senator Andreason asked if the average retirement age is 71 and **Ms. Ahrens** responded that the average age of the state's retiree in the retirement group is 71.

Senator Andreason commented that the state has been with Blue Cross for about one year and asked her for an assessment of that change. **Ms. Ahrens** answered that the opportunity that came with Blue Cross and their bid resulted in (1) their administrative functions have been more current and allowed employees to go online to look at where their claim is in the process and (2) allowed employees to enroll electronically; from a staffing perspective, the information made available to employees has been very good and the preferred provider has pretty much statewide coverage with hospitals and doctors except in Twin Falls and Pocatello. The Lewiston hospital

(St. Joseph's) has signed up with PPO so that will help employees in northern Idaho. The other aspect that Blue Cross brought to the state was the provider discounts, meaning what the state's employees pay for various procedures; those are the two things when looking for an insurance carrier because the state's retention is not very high (meaning administrative costs are fairly low). The Blue Cross experience has been very good and ADM has gone directly to employees with all the information, encouraging them to read that material; there is a website available also. It seems to **Ms. Ahrens** that the only way for the state to get their arms around these costs is if each employee takes an active roll in asking questions about what is being paid for in health care delivery costs; Blue Cross has done a good job of that.

Senator Andreason asked if it appears that employees are more satisfied with Blue Cross; are they happier? **Ms. Ahrens** answered that ADM has had very few complaints; she believes that the employees really like the PPO plan, the $20 co-pay, they like the option provided between the PPO and the traditional, and the PPO has been a plan that the employees really seem to enjoy. There have been individual claim problems, of course, but not as many as in past years. A comment was made that there were some problems with employees who were not familiar yet with the PPO concept; they assumed that if a PPO doctor sent the employee to a specialist, it was assumed that the specialist was a participating PPO provider, and that cannot be assumed. ADM is trying to assist employees through this whole process, but as a whole, the claim issues have definitely been less than with previous carriers.

Representative Bradford expressed appreciation for all the work ADM has done but emphasized troubles in his area (he lives in Franklin, ID). There are six state patrol officers, two from Pocatello, two from Preston, one from Bear Lake and one from Malad who have not had good success with Blue Cross. In fact, one has been forced to file bankruptcy for the reason that he cannot get any reimbursement from his insurance. Numerous people have been consulted and are working on the problem. Many people are extremely upset and **Representative Bradford** knew that wages were low but thought that the insurance coverage was good; he has had to reevaluate that in his area due to the struggles of many of his constituents. We have to look at the fact that there are many border counties in Idaho and when employees go across the border to seek much needed health care, some of those providers are not accepting our insurance. This is a very serious problem. One employee had a heart attack while vacationing in Reno and now the claims are not being covered.

Ms. Ahrens responded that **Mr. Thompson** from ADM has traveled recently to Pocatello to meet with state employees to make sure these problems are taken care of and added that part of the insurance coverage for employees is to help them be productive at work so they are not going through hassles trying to get claims paid. ADM wants to know about these situations and they will work very closely with the carrier to get these paid. ADM is as concerned as the employee is that claims get paid. **Mr. Thompson** added that he met with four state employees and that their discussions were very productive; given the situation these people were in, he commended them for their open-mindedness. They had discussions in terms of how the claims were handled and, equally as important, how to get information to individuals on what ADM can do to prevent that from happening to others in the future. What has happened to date is that **Mr. Thompson**

met with Blue Cross specifically on four individuals who had unpaid claims and they are working through each individual case file, anticipated meeting with them again and corresponded with each employee about the progress being made. Discussions have taken place with the bankruptcy companies these employees are dealing with and those cases hopefully will be resolved within several weeks. **Mr. Thompson** does not anticipate that those employees will be any worse off than if they had followed
through with an in-network treatment. This does point out the need, which ADM struggles with, as to how to communicate various contingencies of the plans. In the meetings explaining these plans to employees prior to open enrollment, over 5,000 showed up. These particular problem cases were in small towns where they were not able to attend one of those informative meetings, and that emphasized the need for ADM to communicate with employees in all areas of the state to get the information out so there are not problems.

Ms. Ahrens added that the state covers 46,000 employees and the only way to know about problems is when employees call ADM, and they do try to respond as quickly as possible. This Blue Cross plan is new and ADM is still working out the bugs, but most are transitional and it has gone pretty smoothly overall.

Senator Compton asked about $11 million excess that **Ms. Ahrens** has mentioned and if that difference was due to what was budgeted or if the state actually paid premiums to Blue Cross and the claims were less than that; did Blue Cross refund money and, if that is the case, what happens if the state's claims exceed the premiums? **Ms. Ahrens** responded that if the state's claims exceed the premiums, the state is insured up to 110% of claims and explained that what happens with the $11.7 million reserve is that ADM on a monthly basis has an accounting with Blue Cross as to claim amounts and that is when adjustments are made. Money paid, if not used, would come back to the state; all money stays within the state and the state has access to those funds. If claims exceed that 110%, there is a reserve for that. The financial arrangement the state has with the insurance carriers is somewhat unique in that we are a fully insured plan with our risk limited. On a fully insured plan using the example of paying $138 million and the state's total costs came in at less than that, the insurance company keeps it all. The arrangement the state has negotiated with Blue Cross is that the state will be at risk for up to 110% of premium; so in this case it would have been $150 million. If total cost would have exceeded that number, then the insurance company would have been on the hook. The state was less than $138 and the state essentially had a profit, a gain on the plan, and under our financial arrangement, that goes into the state reserves; it is held and the state must contractually keep those funds on hand to be drawn against. That money is held and in subsequent years, if there are additional reserves, that money is used to buy down the premium increases that sometimes come in say at 15, to perhaps buy it down at 10 to alleviate costs. **Senator Compton** asked if the state has a modified self-funded program and the answer was "essentially, yes."

Senator Compton asked about patient savings accounts and if the state was moving in that direction? **Ms. Ahrens** answered that ADM is looking at options for the next fiscal year and that would be the health savings account; the state has in place the flexible spending account. Actuarially, ADM is not sure how sound patient savings accounts would be since they are predicated upon buying a very high stop-loss coverage, up to $1,000 on a yearly basis; ADM could run the actuarial numbers again. When those numbers were run in the past, ADM determined it would not work out for the state mainly because we are experience rated so the amount of money the state would be out per employee is what has to be looked at, that $7,510, and if ADM can set it up in a way that benefits the employee and the employer. ADM can look at this again although there not a lot out there at the present time for a group our size; ADM is always looking for something new. ADM is now looking to see if they can provide retirees with a package. If the state went to the health savings account, every employee would have to do that because of the adverse selection; when making changes to a group this size, ADM has to look into the future to see why the state has been able to provide such good coverage and it is stable. ADM thinks this flexible spending approach helps employees with deductibles and any other out-of-pocket expense; the problem with this is if the employee doesn't spend it, they lose it even though the federal government did allow a 2 ½ month extension presenting claims for payment. What that does is, it puts the incentive in the wrong place; instead of people saving and not spending their health insurance, flexible spending accounts encourage spending so as not to lose their money. This is backwards and **Ms. Ahrens** thinks that for a health savings account there needs to be incentives in place to help employees make better choices about how they buy services. ADM could look at this, but actuarially those kinds of things have a huge impact if they aren't successful.

Senator Compton concluded by saying that the whole concept behind this is to make the consumer more conscious of what services cost so that they avoid going to an emergency room unless for extreme emergencies. He suggested using a test group in one part of the state perhaps to see how it would work since there are large corporations moving in this direction. **Ms. Ahrens** pointed out that the state employees are ten years older than most of those large groups who were trying this patients savings account concept and what is needed for the insurance to work is for the healthy people to be involved and that is one of the concerns, in the long run. It is absolutely 100% correct that employees must make better decisions about health care services and prescription drugs, always asking the question: "Do I need this and how much does it cost?" Electronic delivery of employee information is helping so people can do comparisons; when a good price is gotten for a service, that is the other part, because those provider discounts received from Blue Cross make all the difference for employees.

Representative Schaefer asked about the subsidy to retirees by both the state and active employees at a cost of $8 per month and asked how long that had been in place. **Ms. Ahrens** said this had been the case since she has been the Director which was in 1995 and was in place prior to that. Active employees share contributions with the state to try to minimize the impact upon retirees and their health coverage. **Representative Schaefer** asked ADM to provide the date when that actually started because he is troubled that retirees are being subsidized by active employees. **Ms. Ahrens**
responded that would be provided to the committee and added that as we look at how insurance coverage interfaces with part D Medicare, there are retirees that are Medicare eligible who have a different scenario than those who are not yet Medicare eligible. ADM is looking at what other options are available for retirees that are of two different age groups because it is a growing issue

for the state; the number of retirees in proportion to active employees is going up, so at some point this could create a very expensive issue.

Senator Andreason reiterated that our state employees on an average were about ten years older than most groups and asked how long this has been the case or if this was a recent phenomenon. **Ms. Ahrens** responded that she did not know, adding that you cannot take out of consideration the baby boom age is coming through the system all over and where they are employed is another issue.
Many retirees are coming to work for the state, and demographically it may be interesting to study the age group of individuals the state is hiring. This is part of the whole recruitment and retention issue.

Senator Andreason commented that he had talked to a number of employees who said they are not going to retire because of the huge increase in health care that would result and asked if this was becoming common. **Ms. Ahrens** responded that anecdotally ADM has heard about lots of people that are continuing to work to pay for their health insurance coverage. Unused sick leave available in individual accounts can be used toward paying medical premiums; ADM is working with PERSI, to try to level out that impact to retirees who are not yet Medicare eligible by allowing them to pay their medical premium with a portion of unused sick leave and some from their pension. If they have enough unused sick leave to take them two years to cover their costs but they are still two years from being eligible for Medicare, they can average their take-home cash flow in a way where they use their unused sick leave and pension to get them to age 65. Many premiums for the 65 and older group are set with a kind of duplicate coverage because Medicare is the primary payer and there are retirees paying for same type of coverage that the actives are; this may not be the right answer for them.

Representative Roberts asked a question on the power point presentation slide #7 entitled "Enrollment History" and the number of actives dropping from approximately 43,138 down to 41,058 during the course of 3 or 4 years. Is there a corresponding reduction in the number of FTE's over those same years for state employees or what would cause the actives to go down and is this based on eligibility? In his recollection there had not been a substantial decrease in the number of FTE's within state government; in fact, he has seen some slight increases. Are people not participating or what causes that reduction? **Ms. Ahrens** said this was an excellent question and ADM could find the numbers for the committee and try to do a parallel chart so they could see the percentage of employees who are signing up for health insurance coverage. One point made earlier is that ADM changed the premium structure probably in 2003 where ADM set out and made it very obvious to employees that they needed to take a good look at whether to include spouses or dependents on health insurance coverage because they were going to pay a reflective premium increase if they did. Prior to that time there was a flat rate that encouraged people to go ahead and cover their household. What has happened is that each employee must evaluate whether the state's coverage is the right one for them and their spouse and children; in many cases there are husbands and wives who both work and maybe the person not working for the state does have other coverage. We asked people to look at which option best fits their family and crafted their rate structure as such so those people who had more people covered then paid a higher premium. Whether the percentage of employees has actually dropped that are participating is an interesting question. ADM did see a premium category change. **Representative Roberts** emphasized his interest in the actual numbers as well as perhaps percentage of people who would enroll and asked if it was correct that a classified employee could opt out of the insurance? **Ms. Ahrens** answered that an employee could opt out if they chose to. **Representative Roberts** wanted to know what was causing the decline and **Ms. Ahrens** responded that if employees are opting out, the committee may need to look at this as part of the entire employee benefit compensation package. **Ms. Ahrens** responded that ADM would attempt to come up with numbers on that available for the committee at their August meeting.

Senator Stegner asked regarding the retirement retiree subsidy and if that was based on statute? **Ms. Ahrens** answered that this has been in place for quite some time and it says something to the effect that the state needs to provide to retirees the same type of coverage that is provided to actives. When that was instituted, that may have made sense; however, times have changed. **Ms. Ahrens** offered to do research on the subsidy portion and if the state pulled that out at this time, it would cause a big increase in premiums to retirees at this point. Whether it is in statute or not, **Ms. Ahrens** was not sure, but agreed to look into this. **Senator Stegner** requested that while that research is being done, that **Ms. Ahrens** also provide the committee with copies of the statute and include that in the history of the decision making and how that has evolved. **Ms. Ahrens** agreed to do that and added that the state does have a cap now for retirees on their prescription drug coverage and that was successfully instituted because about 53% of the claims from retirees are for drugs since Medicare doesn’t cover them.

Senator Stegner pointed out that the private sector has had the same challenges as the state in rising medical and medical insurance costs and other committees deal with that to see whether the state can be effective in curbing those costs. As a member of the legislature **Senator Stegner** didn’t think there was any doubt that increased costs in medical insurance and the state’s willingness to keep similar benefit packages for actives and retirees over the last ten years has resulted in less money available for plain compensation. This is a decision the legislature made consciously about trying to maintain that package and making it a priority, but it has come at the sacrifice of base salaries and standard incomes for active employees. Does ADM do any analysis of the private sector and the changes gone through and reductions in actual medical coverage? There are rumors that many corporations and businesses that provide medical insurance have, in fact, decreased their coverage and increased their deductibles and also increased much of the cost to employees. For the state to make comparisons about the state salaries and packages, it would be helpful to have some idea of whether or not the state has maintained a superior system in medical coverage compared to the private sector. Can research on this be done? **Ms. Ahrens** answered that there are many reports out about coverage in the private sector and some of that information becomes difficult to get because corporations do not want it made public. ADM can find out how much the corporate employer or small business employer puts out each year for their employee because the plan designs are all over the board. The state spends $7,100 per year for each employee; that kind of comparison as an employer and how much effort is being put toward employees for health insurance is something ADM can find out. One of the things the state does,and has for some time, is that premiums are set to keep them low for employees to include their family; many private sector employers only cover the employee and if an employee wants dependent care coverage, they pay a substantial amount of money for that. The philosophy has been since the state isn't picking up Medicaid and other health care coverage that, as an employer, if we can encourage our employees to buy health insurance for their family and pay those monthly premiums, it helps everyone. So premiums are set up differently and yes, the state probably subsidizes dependent coverage more than most other employers; that is a policy decision as an employer that we have made. When surveys are done, the number that came to mind for **Ms. Ahrens wa**s how much does that employer contribute on a yearly basis for health insurance coverage or some type of coverage to their employee? **Senator Stegner** answered that would be helpful to this committee; additionally, he asked whether those changes had been significant over the last ten years in comparison to the private sector which might also be relevant.

Senator Compton commented that some states have passed cost-of-procedure legislation, South Dakota being one of the leaders and others have followed suit to bring awareness to what a procedure costs. **Senator Compton** asked **Ms. Ahrens** if she would be interested in encouraging legislation that would require cost of procedure? **Ms. Ahrens** answered that she reports to the Governor and that she would always be willing to look at something but that she would have to check with her superiors on that. **Ms. Ahrens** did agree that consumers do need to know what they are paying for when they get health care services, but it is very difficult. In working with insurance providers, it helps to get comparative numbers to see what the difference in cost is between a doctor and a nurse practitioner; it would be helpful for all of us to know if we are paying the going rate or more and that is the only way people get choices. Unfortunately in health care, cost isn't the only determination for a good outcome.

Senator Compton asked ADM to research South Dakota and other states because legislators in South Dakota think this has already saved $2 million per year. **Ms. Ahrens** offered to investigate.

Senator Kelly commented that the state administers our benefits programs in a separate location than compensation and personnel program and asked if it had always been that way and if this causes problems. **Ms. Ahrens** responded that in 1997 when organization changes were made in state government, that is when all the insurance coverage was centralized with ADM for insurance management because insurance management concepts are different than personnel issues. The opportunity to coordinate still exists no matter where it is administered; both still report directly to the Governor. Coordination of retirement and health benefits is total compensation and it is a trade-off when there are "x" amount of dollars available for each employee whether to pay for health insurance, the retirement system or into salaries. **Ms. Ahrens** has found anecdotally with employees that it depends upon whether they are over or under 45 and whether they want it in wage or in retirement health benefits. As far as organizationally, it has always been **Ms. Ahren's** belief that it doesn't matter where but rather whether departments are coordinating particular expenditures and making sure that this technical side of insurance management is being done appropriately or not.

Senator Compton pointed out that there is a great amount of evidence that it is to the state's benefit to get people thinking about good health as early as possible such as PSA and urine tests, mammograms to avoid million dollar cancer problems later and asked if the state has anything creative to direct our employees in that direction in the form of reward or punishment which would encourage early preventive tests. **Ms. Ahrens** answered that part of the benefit enhancement that came when the state changed to Blue Cross was that their plan provided more wellness benefits so that these visits would be covered. This year ADM included on the enrollment brochure on page 3 blood count numbers for blood chemistry panel tests covered on wellness check-ups, so that information was made available. The other focus is disease management so that once people are diagnosed with a disease, then the state is giving help on how to manage that so their outcomes are good and the costs are lower. Another part that may come about which is happening in other states is that healthy lifestyles are rewarded as opposed to unhealthy risk behaviors, but how that is ministered and policed becomes the issue. This may be a way to encourage people to stop smoking, exercise, and encourage people to use the stairs when they are able, rather than elevators. Individuals need to get involved in their decision making about health care and costs; this is not happening.

Alan Winkle, Executive Director, PERSI was introduced and began his presentation by stating that PERSI's actuarial evaluation will not be completed until October, 2005, and will reflect the impact of the past fiscal year at that time. PERSI covers virtually all local governments with the exception of some counties and a few small cities; the state is mandated in by law and schools as well which is 70% of PERSI's membership in terms of employees. The first graph showed 680 employers and the units comprised of state employees at 14%, schools are 20%, cities 21%, counties 6% and miscellaneous 39%. The total in covered salaries showed $2,124,040,000 paid to the employees in those 680 employer units. PERSI's retired members total 26,043 and grew 2004 to 2005 by 1,000 and there may be even more in FY 2005; the average annual benefit is $11,804; the average age is 72.4 years old; the average age at retirement is 61.2 after an average 17.3 years of service and the annual payroll is $307,410,000. From an actuarial report a graph showed retirees by year of retirement in numbers and age; in calendar year 2004, 1,893 employees retired. In the past 3-5 years there has been a large jump in retirements; when the economy was depressed, retirements were less due to unknowns. Retirements will increase as we go forward according to projections.

Active PERSI members who pay into PERSI total 63,385. That is what drives the benefit and $33,510 is the average annual salary. The average member is 45.9 years old with an average of 10.2 years of service, growing with baby boomers; FY 2003 was 45.7 and now is at 45.9 and we'll continue to see that. A private retirement plan shows this is about ten years older than in private retirement plans. Another graph showed employee salary increase by employer group and may help the committee in their deliberations. Salary increases were looked at over the past five years for employees by employer unit (state, school, city, county, misc.) The purple bar showed the 2000-2001 salaries and recorded the difference; this is a little different than a normal salary comparison because this is only a salary comparison of only those members who are present, who have 12 months of service in FY 2000 and 2001, no partial hires or partial terminations. The cream bar showed 2001-2002; the blue bar showed 2002-2003 and the white bar reflected 2003-2004. No fiscal data was available for FY 2005 yet; then another bar can be added. Those are not weighted bars, those are averages of total salaries classified as those individuals and what the percentage increase was for those individuals who met the above criteria.

Mr. Winkle moved on to an actuarial valuation done annually by Milliman, an actuarial consultant, and shows what PERSI's liabilities are, the benefits promised to all members and what is the projection of when those benefits are going to be funded; are they overfunded or underfunded and what is the current status? What does the future look like? Actuaries are wrong yearly, but over time, say 5-10-15 years, they are right on, so the next chart was very accurate from a long-term view and it was entitled "Actuarial Gains & Losses FY 2004." Expected funding (7/1/04) was 82.2% and unfunded liability should have been paid off in 18.9 years. That unfunded liability under gains & losses (in millions) was just less than $1.5 billion. What made it turn out differently? There was a good investment return (18%) and when you see a negative liability that is a good thing, so there was an investment gain of $650 million and the salaries were less than expected and that drives the benefit amount so that was a gain of about $134 million. Membership growth was a loss, PERSI grew in some membership that was not planned on and some other things. PERSI came out with $671 million in unfunded liability starting at $1.5 billion, which was a very good year. PERSI's funded ratio was expected to be 82% funded and were a touch less than 92% funded; PERSI expected in 19 years to pay off that unfunded liability and that dropped to 7.8 years. PERSI added a Cost of Living Adjustment (COLA) to that; all of the COLA's are funded by adding to the unfunded liability and that amortizes over time as statute requires. If $2 billion in salaries is compared to the $8.5 billion in assets, 1% increase in assets will drive funding 4 times more than 1% in contribution rate, which says we are a slave to the market. Whatever the market does will predict where PERSI's funding is.

COLA last year was interesting, 1% base is required by statute, if the CPI grows greater than that. The 2.7% less than 1% was discretionary on the part of the board; there was 18% return, the actuary assumed 7.75%, so that was a very good year. PERSI was able to fund a 1.7% discretionary one-time COLA at a cost of $53.8 million plus were able to go back to 2002 and pick up that 1% COLA awarded versus 1.8% CPI. The COLA is projected to now be at about 2.5% to 3% but will not be final until August.

Historical contribution rates were shown going back to 1996 when PERSI was seeing wonderful returns (18.4%) and the board took action in 1997 to drop contribution rates on a temporary basis by 3% of pay and it was left there year after year, unsure of the market and the legislature's decisions. The concept of gain sharing was developed and has put the state in very good stead compared to compatriots in other states. In 2001 returns dropped to -6.1% and in 2004 the return was 18.1%.

Future contribution rates were shown as a percent of salary for employee and employer with regard to teacher/general members and fire/police. The next contribution rate increase PERSI is looking at is 7/1/06 and the board will decide upon that.

Cash flow projections showed where PERSI’s funding is going in the future; the blue bar showed the cash flow in and the yellow showed expenses for years 2005 through 2014. Until 2010 it shows a positive cash flow but at 2010 it shows negative cash flow, paying out more than what is brought in and that is part of the plan since the baby boomers are coming through the plan and that has been planned for. The $8.5-9 billion in assets will be growing in order to then pay for those benefits. As baby boomers come through, contributions will remain level as long as the market stays with us and those assets will be drawn to pay benefits from the pool which is how it works.

PERSI contributions since inception were shown on a chart and employees contributed 17%, employers 29% and investment returns 54%. What happens to the employer contribution when an employee leaves after less than five years of service or they have eight years and they take their money out? This is part of what the actuary counts on to fund the plan. There is a termination assumption by age and service.

PERSI’s Choice Plan (401K) statistics show 27.6% growth since last year and plan assets total $177.68 million as of June 30, 2005. Member contributions were up 25% to $21.68 million and the average account balance is up 29% at $3,730. Rollovers into and out of the plan continue. Charts were also shown on participation, asset allocation, fiscal year and calendar year returns on investment information.

The sick leave program was not covered by **Mr. Winkle** and PERSI administers the sick leave program both for the school employers as well as the state employers and if the committee wants information on that, they have actuarial information available and where that is going.

Senator Stegner asked if all the unpaid COLA additions are caught up now? **Mr. Winkle** answered that PERSI is at 100% of purchasing power for retirees.

Senator Marley asked about a 39% miscellaneous category on a pie chart shown entitled "Demographics - Employers" and asked what that included. **Mr. Winkle** responded that included water districts, gopher and mosquito districts and many small employers who didn’t fit into the larger categories grouped there.

Senator Andreason asked how unused sick leave be parleyed when an employee retires. There are two parts to this program and **Mr. Winkle** addressed only the state side; schools have a similar one. The state plan provides that one-half the cash value at time of retirement can be converted to pay for medical insurance premiums for plans that are sponsored by the employer and this is a tax-free accumulation. The hours and value are certified by the employer, PERSI checks that, puts it into an account and then as the individual designates how much they want to spend, the funds are deducted from that account. The state has a limit of 600 hours; schools have no limit and there has been dialogue on this for years as the cost of medical insurance goes up. There has been actuarial analysis on what it would take to remove that 600 hour cap. **Senator Andreason** added that a state employee who plans ahead and does not use their sick leave can retire at the normal time without the problem hanging over their head as to how to pay for health insurance premiums. It is possible to retire before an employee turns 65 with as much as five years of premiums paid by unused sick leave. The suggestion was made that this should be advertised as much as possible to employees. This possible bridge to retirement could encourage employees to retire.

Representative Wills mentioned several liabilities with regard to this because the valued employee is only allowed 600 hours of unused sick leave and employees who do not use their sick leave may have much more than that and will lose those hours. He added that he did not believe the system never allows an employee 5 years, but rather 2.5 years approximately what currently is the cost of insurance premiums for the individual only. It is an asset, but there are detrimental components as well.

Representative Roberts asked if in the years prior to September 11, 2001, the state experienced revenue sharing through PERSI that dipped below what there were reserves for. The question was if the board considered at a point in time to increase reserves based on the number of retirees coming up? **Mr. Winkle** responded that the fund reserves for paying benefits to PERSI's beneficiaries hit equilibrium at 100% funded. The reserve above that is in the venue of gain sharing. If that is done, how much would be needed considering that the resolution allows one standard negative deviation event? How many assets do we need to insure if there is a negative percentage for reserves to go from wherever they are to 100%? The reserve the board would set if another event occurred would be determined at that time. **Representative Roberts** commented there was another way to do this other than gain sharing and that is to reduce the rates paid; he asked if there was anything in statute that specifies how much should be charged in lesser premiums if there is a gain, or if that was up to the board? **Mr. Winkle** responded that what is in statute is the form that says the contributions for the employees will go into a 401K Choice Plan and retirees will receive a one-time COLA; the amount and the distribution (what percent goes to whom) is the board's decision.

Senator Andreason commented about the actuarial record in PERSI and their outstanding record compared to most individuals who have had stock investments during hard times and congratulated them.

Senator Compton asked **Ms. Ahrens** about the cost the state spends per employee; he asked for a breakdown on that for pharmaceuticals, how that is tracking and what the state is doing to encourage use of generic drugs. **Ms. Ahrens** will get this data for the committee, commenting that the co-pay is three-tiered.

The meeting on July 25, 2005 was adjourned at 5:05 p.m.

The meeting on July 26, 2005 was called to order at 9:00 a.m. by Co-chair Senator John Andreason. Other committee members present were: Co-chair Representative Bob Schaefer, Senators Dick Compton, Joe Stegner, John McGee, Bert Marley, Kate Kelly and Representatives

Larry Bradford, Ken Roberts, Rich Wills, Jana Kemp, Anne Pasley-Stuart and Shirley Ringo. Senator Michael Jorgenson was absent and excused. Staff members present were Matt Freeman and Charmi Arregui.

Others present on July 25, 2005 included: Ann Heilman and Jay Anderson, Division of Human Resources; Pam Ahrens and Rick Thompson, Department of Administration; Amanda Brown, Service Employees International Union (SEIU); Jane Kinn Buser, Boise State; Tim O'Leary, ISP; Dona VanTrease, Vickie Burnet and Vicki Patterson, Idaho Public Employees Association (IPEA); Brandon Woolf, State Controller's Office; Kent Kunz, Office of the Governor; Judi Gregory and Joe Tueller, Juvenile Corrections; Nina Eng, Congressman Otter's office; Dave Tuthill; Amy Castro and Cathy Holland-Smith, Legislative Services Office; Brad Foltman and David Hahn, Department of Financial Management (DFM); Joseph Brunson and Diana Jansen, Health & Welfare; Colonel Dan Charboneau, Ann Cronin and Terry Morgan, Idaho State Police; Mary Harker, Department of Transportation; Pam Sonnen and Gary Charland, Department of Corrections; Lawrence Wasden, Attorney General; and Robert Kustra, President, Boise State University.

The first speaker was **Brad Foltman**, Administrator, Division of Financial Management (DFM), who began be stating he was here to present DFM's perspective on how the compensation and benefits issues for state employees work from DFM's perspective. DFM is involved in a number of cross-cutting issues in state government including human resource issues and compensation. It is not, however, exclusive to that aspect of the state budget. Much of the authority under which DFM operates emanates from the Idaho Constitution that speaks to the executive branch and the Governor's role within the executive branch and also specific to DFM the Title 67, Chapter 35 which outlines many of the issues that pertain to how compensation and funding of state agencies and budgeting works in the state. DFM's authority is quite extensive in terms of ability to research issues and develop reports to whatever extent the Governor desires those analyses to be done. DFM is involved in a number of issues that would normally be more generic to a particular agency or program; for example, the policy decisions emanating from various boards, commissions, departments and programs are intertwined with fiscal capabilities and the policy decisions are not independent from what it takes to fund them and the operations and mechanisms required to make delivery of those programs possible.

In the case of DHR, the compensation to employees is a major part of what is in the state budget. Personnel costs are a major issue; any issue that emanates from cost of compensation comes together in the Governor's office and when the Governor's recommendation is put together, those are all items that need to come from a system perspective into what the Governor then provides to the legislature in his budget recommendation. This system of state programs is very complex, very large and very diverse. DFM tries to accommodate all issues from a small independent board or commission to a small agency with several employees to and including higher education with thousands of employees. To make all that work as a system, it requires a vast amount of information coming from multiple sources merged into a comprehensive package that is not just compensation, but benefits such as health insurance costs, retirement system costs and including space costs to house an employee. There are capital outlay requirements, furniture and equipment enabling employees to do their jobs. DFM gets involved when looking at those comprehensive components to determine not just on a compensation level but a benefit cost, where the available fund sources are, if they are equitable across state government, keeping in mind that DFM tries to do that in all agencies of every size.

DFM does support the Hay System and sees it from the standpoint of what neighboring states have experienced. The state of Washington has experienced some very dire circumstances over the years because they have not had a system like Hay; it is not the only system available and they all work quite well. The point is a state needs some system in order to generate the internal equity and external equity to insure that the state is treating the labor force fairly and that job skills and knowledge are adequately addressed through some system of pay that reflects without gender and age and those factors that seem to be an issue in the workplace. From DFM's perspective, funding is the major issue in any system; it works if there is funding available and that brings this issue back to DFM. In the case of Fish & Game, for example, dedicated funds are used for agency operations and this past year the legislature increased fees for Fish & Game in order to continue to provide the programs and services. The Transportation Department is similar; they are not a general fund agency but many employees depend on how Transportation employees are treated similarly to Fish & Game employees for comparable skills and knowledge and as to how that may pertain to employees in the Department of Health & Welfare, or any other state agency. DFM needs to have that internal equity. The Hay System has kept Idaho out of court for years, in **Mr. Foltman**'s opinion. Idaho stands a substantial benefit from the standpoint that Idaho does have a system called Hay and we do keep the integrity of that system intact through the surveys that DHR does yearly in addressing what goes on in the marketplace and assembling information that is helpful to the Governor and legislature in terms of policies and issues that need to be addressed on behalf of state employees the following year.

The legislature and the Governor certainly hear about stress points in the system and also hear comments about when the system is not working and that there is something terribly wrong with the system; again, from a DFM perspective, the system isn't the issue from their point of view but funding is the issue. When an employee doesn't receive an increase they are expecting, their natural reaction is to say something is wrong with the system and the system is based on performance. Very few positions in state government when you look across, not just classified employees, but all across, the system works quite well in those cases where you see funding levels available to support it. The problems arise in situations where an employee may not view their performance less than stellar and yet in the evaluation by their supervisor with competing priorities and needs and employees in a comparable group, that might be seen differently. That may result in frustration on the part of the employee and DFM, hears those issues. When funding for employee increases is very limited, it exacerbates those kinds of complaints and employees believe they are not given due regard for their job performance. Therein lies many of the problems in state government; if we could do a better job of funding employee issues, not just compensation. The state needs to look at health insurance benefits and those costs and retirement benefits and those costs. What are we providing in support of an employee to do the job that we asked them to do?

Certain jobs on any given year may fluctuate, those internal pressures will remain. The state needs to retain the talent pool in order to insure that the state can bridge emergency situations that may arise and be able to retain the integrity in state accounting, payroll and the financial system. There may still be some pressures on IT job classifications such as the Y2K situation which created a peak in terms of the competition that was very intense; the private sector was experiencing this at the same time. Over time, those pressure peaks arise such as with IT support, engineering and health professions. It is difficult to be competitive and the statute says the state should be a market rate employer; we have not been and are still trying to look at those issues that will help obtain that, but we are not there yet. Much of this spills over causing frustration to employees and how they see the value of their job and what they contribute to the state on behalf of the citizens throughout the state. It creates tremendous pressure in unique circumstances when a particular job classification needs special attention and the state isn't able to compete. As a system, when integrity is not maintained across all job classes with various funding sources with some continuity of benefit programs, insurance being the largest one, how do we address this and how do we compete?

There are regional variations in different areas of the state. DFM for years has budgeted Moscow, which is a unique circumstance, and the economy of Moscow is heavily influenced by what the University of Idaho is doing. Policy decisions the last few years were made to forego compensation increases for their employees as their financial circumstances are being worked through. So the complexity of what DFM looks at is substantial and is not just employee compensation. DFM's view is to be very cautious about creating additional administrative features to address a particular issue in a specific job class for a specific period of time. The pay schedule currently accommodates a very wide range and very few employees out of all those that work for state government are maxed out at the top of their pay grade, but there are a few. This is a significant issue to try to retain those employees and to motivate them, keep them productive when they know they are maxed out in their pay levels; unless those pay lines are moved to increase starting salaries and also the cap on those salaries, a problem arises. The majority of state employees have additional space and opportunity within current pay structures to accommodate many of the pressures DFM sees in a particular job class. To DFM, it comes back to them as an issue of funding and agencies who have a predictable fund source that generates revenue seem to do better than agencies dependent on the priorities that compete for money in the state general fund.

DFM deals daily with the items in Title 67, Chapter 35 which is very extensive in how agencies budget and how that process works. Currently the relief valve, if there is one, which is very limited is for the Board of Examiners to authorize certain exceptions for emergency purposes, which is the intent for the authority delegated by the Constitution and the legislature to the Board of Examiners that an emergency should be for and not replace ongoing policy decisions that are made both by the legislature and the Governor. The preference would be that policy decisions emanate from the legislature and implemented by the executive branch through the Governor's authority. The flexibility hopefully should be there to address that within current guidelines within current legislation. The process last year worked quite well; it was unique, was implemented in a short time frame and was done successfully, much to the credit of the legislature in providing funding and much to the credit of the executive branch to implement as quickly as possible. **Mr. Foltman** looks to this year's effort to be a similar success with a minimum amount of administrative oversight and still achieve the desired result.

If there were one thing **Mr. Foltman** would propose, he commented that DFM finds that the bonus provisions as they currently are in statute are very restrictive and not just the $1,000 limit, but the fact that the language that goes along with that says that it shall be for excellent performance. There are a number of situations where the state could recognize employees such as employees of the month and other recognition programs that may be very helpful. On occasion, there are errors in the payroll system that occur and DFM needs to go back and be able to make corrections and adjustments and they can do that now only on a very limited basis. If DFM had a bit more flexibility to address those issues it would certainly be helpful. Employees who are at the cap of their pay grade can't be paid outside that current pay grade; if they could receive an increase without bridging the current requirements and not have it go against their $1,000 bonus limit for the year, that would be helpful. This unique circumstance ought to be able to be addressed without having to be considered a performance for excellence bonus up to $1,000, and not be in conflict with the current code.

Senator Andreason asked **Mr. Foltman**: "When the legislature bases salary increases on performance philosophy, do you personally think that DFM can provide salary increases for performance using a 1% salary increase? **Mr. Foltman** answered: "In a very limited capacity only; 1% does not allow, in his opinion, to truly address performance issues that an agency may have. An agency can allocate a pot of 1% money so that higher performers may receive more than 1% at the expense of others receiving less or nothing, and this may be the stress that came from last year's experience with this. When an employee works diligently throughout the year, 1% does not provide enough flexibility to address true performance issues; I think this results in agencies resorting to policies and issues that are not as beneficial. If more money could be put into performance for innovation, creativity or initiative, that is where productivity improvements would occur that everyone is looking for. There are too many struggles and frustrations with 1% money to create much incentive on the part of agency management to address that."

Senator Andreason asked if **Mr. Foltman** recalled the percentage of increase that the Governor had recommended over the past three fiscal years. **Mr. Foltman** answered that during the years of holdbacks, there was not an ongoing salary increase proposed; last year there was. The ranges were smaller than in the 1990's; the last few years the recommendation was 2% or 3% including some salary equity issues for higher education, for example, for 2006 including a 1% ongoing. It is not sufficient to address many of the performance issues present, but perhaps with the changing revenue projections the state can do better.

Representative Wills commented that when a salary increase is granted to an employee, it seems to him (inside the agency) that there are many steps that must be taken before that is approved. For example, supervisors must get approval from their director, then DHR and DFM on a state level; it seems to him that for a $50 or $75 increase there are many steps taken. Why are we taking so many time-consuming steps just for security or a feel-good policy which we know is consistent and fair, but can't we get there with fewer steps? It seems this process is very top heavy, in his opinion. **Mr. Foltman** admitted this is a question wrestled with yearly and emphasized that the role of DFM is to insure that funding is available, and that an agency is not exceeding their ability to pay their financial obligations in the current year, plus obligating at a level that in the following budget year would cause them to either need a supplemental or a significant revenue source infusion. DFM's role is not to address the issue of whether an employee is worthy; DFM is not second-guessing the decisions made at the agency level but rather DFM is there to insure that from a system perspective the budget remains intact for the current year and does not over-obligate because of an "exuberance" on the part of agencies to reward outstanding employees. If there is a problem in a particular job class, the state needs to raise those salaries and that is going to be done; if that creates a problem down the road the following year, then it becomes DFM's responsibility to address that. Fewer steps would make a more efficient system and could still provide the safeguards for DFM's checks and balances; there would still be a role for DHR in terms of the policy issues being addressed by agencies and from a DFM perspective so that over-obligating on future budget requirements does not occur. This should not be burdensome; the agency decision to allocate is an agency management responsibility and unless DFM hears or sees otherwise, the agency could take less steps. DFM is not the one to make that decision for agencies.

Representative Wills asked what can be done to streamline this process to make it easier? Is there anything on the state level that can be done? **Mr. Foltman** responded that it comes back to the issue of what are sufficient checks and balances in this process, believing this is the desire of the legislature to make sure that controls are in place to assure that more than one person or entity is reviewing and looking at issues to insure fairness between agencies and to avoid over-obligation. If the legislature were to say that agency directors need more flexibility given to them to make decisions, yet still maintain control of the purse strings, would this contribute to the growth of government if compensation helps close the gap with the private sector? The surveys show that there definitely is a gap; there are ways to minimize controls, but funding truly is the issue.

Representative Kemp commented that, if funding is the primary issue, she saw no changes proposed and asked how the legislature might approach the funding issue to insure that funding continues forward at the same and increased level. It was her understanding that the state is still working on the compensation schedule from 2002 and that is a sore spot, asking what **Mr. Foltman** would propose. **Mr. Foltman** did not propose changes from a DFM point of view. Because funding cuts across different sources of funding, DFM has more success say in ITD because of the unique source of funds available. The gap between current pay structure and the private sector has been in double digits for quite some time; funding is an issue and DFM looks yearly for ways to address that issue. DFM would like to see as simple a pay structure as possible and more flexibility given to agency directors to manage personnel costs.

Representative Kemp asked, understanding that employees are frustrated at not being adequately or fairly compensated, independent of the market issue, just looking at the Hay System scale, what did **Mr. Foltman** (with his expertise and background) suggest the legislature do to fund? Part of the goal of this committee is to talk about strategy, but how do we fund that strategy going forward? **Mr. Foltman** answered that most of the funding for personnel costs for state agencies comes from the state general fund and therein lies competition of other priorities. Public schools, higher education, child support enforcement issues, health and welfare, Medicaid, are all extremely critical issues and compete with salary compensation and health insurance benefit costs for state employees. This is why you hear in the media the frustration from state employees that the budget got balanced (again) on the backs of state employees and that frustration is understood. It comes back to the issue that the state needs to recognize the value of what state employees contribute to the success of programs and services in this state and be willing to say that is critical enough that the state needs to improve what is being provided to employees, knowing that stresses are present in schools, higher education and public safety. This committee's role is much like that of the Governor's, taking conflicting priorities and balancing them in the best way possible.

Representative Schaefer commented that he personally had a problem with the raises in the Governor's office that had occurred over several years when other state employees were on the tail end of the budgeting list.

Mr. Foltman responded that the Governor's office was a bigger "fish bowl" and the attention that is focused on that particular office is significant. Activities and jobs done within that office are not unlike other agencies where job responsibilities change over time, and that may be the factor that causes a particular employee to get a substantial increase; however, the performance aspect would most certainly be a factor in any increase. There are situations in all agencies when job responsibilities change resulting in an employee's dramatic increase in salary. That record is available for inspection.

Senator McGee referred to a particular bonus program in the state (Idaho Code 67-5309C) dealing with recognition for an idea to save state resources. Agencies have been encouraged to develop internal procedure to provide for prompt consideration and distribution of awards (Ref. Section 67-5309C(b)(iv), Idaho Code) (3-16-04). This bonus results in significant savings to taxpayers and, as a budget writer, he thought it was a good idea; it encourages efficiency in state government. Even though a great program, there is not a funding mechanism to fund those bonuses; is there a solution to this? **Mr. Foltman** answered that it is mostly up to the discretion and judgment of agencies to determine who would qualify for this bonus program. All state employees should look at better ways to provide programs and services as a normal part of any job, but any employee who finds a way to save money for the state should be commended. Agencies normally would have money available for such an employee who is innovative and creative, generating savings for Idaho citizens, but the issue is how that competes with the normal bonus program. **Senator McGee** asked if the legislature needs to redefine in code specifics regarding a bonus based on savings to the state or if that was up to directors of agencies. **Mr. Foltman** stated that further development of the concept needs to be done, in his opinion; whether that would require statutory changes, rule changes or guidelines to make that happen, he wasn't sure but trying to implement from a legislative intent standpoint has been difficult for some department directors to recognize. At what level should the state qualify an employee for a state resource savings bonus compared to the regular excellent performance bonus?

Representative Ringo commented on one sentence at the bottom of **Mr. Foltman**'s DFM handout: "When an employee does not get a desired increase, the 'system' is the problem." **Representative Ringo** finds this quite contrary to what respected employees are telling her to a great degree. This comment sounded to her almost as though it was being inferred that employee complaints are petty and somehow she believes that the "system" is a problem. Even if what is on paper looks good, when it is so disjointed from the funding to make it work, why isn't pressure put on the legislature to resolve this issue? The finance committee last session went through every item and left state employee's salaries as the last item, so it makes it clear that funding for state employee salary compensation is not a high priority. With a system where steps are in place, there is pressure for increases; employees should not have to work for the state and lose buying power from year to year and she is convinced this is happening. The "system" should have a schedule and a market value plan, in her opinion, but there also should be some direction for funding with better guidelines than the legislature has been getting.

Mr. Foltman referred to last year's temporary salary increase. Prior to the close of the fiscal year when DFM heard they would qualify for that particular allocation, many employees did not believe it was going to happen; DFM did qualify and DFM did make an allocation and distribution, and to his knowledge less than 24 employees were upset enough about it to complain to DFM. Of that 24, only one proceeded to the point of threatening small claims court. DFM did not hear from the other thousands of employees who received this bonus. Normally complaints are made by those who do not receive something and they often do have very legitimate issues raised about their employer, management, performance evaluations, uniformity of the system and DFM wants to hear those comments. The "system" does work; he thought employees were grateful and he wishes the bonuses could be more.

Representative Ringo commented that it has been her experience that it takes a great deal of courage for most employees to voice their opinions, such as support people from the public schools who testified before her several years ago. Many employees would be reluctant to speak out, and **Representative Ringo** wanted to voice her opinion that it should not require a lawsuit for the state to know this is a serious problem. **Mr. Foltman** had stated that internal equity was quite good, and **Representative Ringo** expressed concern she has heard with respect to merit pay between agencies and there being quite a discrepancy on how merit pay is applied and asked if this has been investigated? **Mr. Foltman** answered that is more the role of DHR whereas DFM's role is more specific to providing funding sources, adding that biases do enter into evaluations even though the state trains to provide uniformity across state government.

Representative Roberts asked a question regarding state employees being 14.2% behind the market and **Mr. Foltman**'s comment about the flexibility within agencies (Fish & Game and ITD) having funding sources. His question was: "Are the percentages of salaries in all state agencies consistent or are some agencies who have revenue sources less behind the market? **Mr. Foltman** answered that salaries vary both by fund source and by particular agencies, adding that there is definitely a correlation between agencies who charge and raise fees to support services or activities and their increases in compensation to employees over time. Fish and Game is a successful fund source because of management's persistence by saying it is important for them to retain biologists and conservation officers and so they have done better than other agencies who are funded from the state general fund. This is an issue about a fund source. **Representative Roberts** asked: "If state employees are limited to an increase of a certain percentage within the Hay System, then where do those additional dollars come from to fund or how does that money get passed to these employees within departments? Is it a combination of bonuses and salary savings then distributed within departments and is that consistent? Is that given out equally within a department or weighted to more administrative positions; where does that money go?" **Mr. Foltman** responded that there is frequent criticism that increases appear to many to go to upper management, senior administrative employees and that is viewed by many front-line employees as favoritism, and more often than not it isn't. Competition is usually very intense for job classes at higher levels of responsibility compared to entry level positions. Market surveys done by DHR prove that higher salaried, higher level positions are extremely competitive due to those employees' education and expertise. If the state would lose those employees, the state would be missing an integral part of what makes a success of the state agencies. **Representative Roberts** commented that salary increases do take place for upper level management due to competition and additional funds are going there to keep those people intact; however, the median employees of the state are not getting those kind of increases. **Mr. Foltman** answered there were several things to consider. In addition to the funding issue, there are very few employees at the senior level so in terms of dollar increases, it doesn't cost as much, even though the percentage increase may be dramatic and the salary level may be high. There are not as many people in that top pay range. In the middle and lower end of the pay scales and at entry level, there are thousands of people; that would cost so much more when trying to address issues of the workforce. This is one of the serious stresses in the funding aspect. To raise salaries at entry level, the cost would be dramatic.

Ms. Heilman next addressed the question: "Are we complying with the intent of state compensation statutes and the Hay Plan?" **Ms. Heilman** stated this was an interesting question and began by following up on several loose ends from the July 25, 2005 meeting. There was a request for year by year activity on the CEC recommendation and what was recommended by the Governor at that time and what the legislature at that time did. A handout was given out entitled "Synopsis of State Employee Salary Increases Since Implementation of the Hay System" and is available in the Legislative Services Office. For those on the CEC Committee, this data is the last two pages of their supplement report received in December.

For FY 2006 **Ms. Heilman** recommended the Governor make the following changes: budget as much permanent CEC as possible up to 6.7% for all agencies and that market studies and performance should guide the maximum for pay increases; a 10% permanent merit increase was recommended for all jobs requiring registered nurse licensure; one time money was recommended at a 3% pot that would be triggered by the year-end surplus in FY 2005; recommended legislation that would allow a one-time merit or bonus if there were savings in operating or capital outlay budgets after the first six months of FY 2006; recommended that the health fund insurance increase be funded and also that DHR and ADM be directed to promote wellness health education and disease management in the workforce; opposed any expansion to the retirement program due to cost; and asked the Governor to consider a total compensation task force. That information would be seen if the handout had been updated for FY06 in the first column under DHR Recommendation.

The second column would be the Governor's study; he recommended a 1% ongoing increase based on merit and the legislature funded a 1% one-time increase based on the budget surplus in the summer at fiscal year end. That updates year by year what has occurred.

Ms. Heilman addressed the problem that this committee has been gathered together to address. Being in a political world, many people give versions of a situation and their perspective and this is the American way and that is good; however, **Ms. Heilman** thinks it is critical that it is really understood what the state is dealing with and what is the truth in all this data behind the perspectives. There is an important issue that has to be realized first which is that each Governor, regardless of party and each legislature, regardless of party, has inherited this problem from the one preceding it. For more than thirty years the state has been grappling with this issue of how to pay employees fairly and accurately reflecting the will of the employees and market issues. So, the issue today is one that has been compounded from year to year with not enough funding to go forth with a plan or when no plan was clearly passed down and our political system doesn't support that passing down of a recommendation to support say a 5% increase. Each Governor and legislature has been handed this benefit package that has soared in cost 245% since 1998 and all agree this is a huge problem; they have tried to do their very best for employees, under the stress of these skyrocketing costs. So, as this data is being reviewed and how much is spent on the state's benefit package, it is helpful to understand that everyone involved has done the best they could with the given situation, but **Ms. Heilman** believes that it is our opportunity today and going forward to look at all the layers of every one of the issues presented in these meetings including what kind of benefits the state has and why, how much is being spent on them as well as the salary system. Then work from the ground up; otherwise the committee will only get perspectives of fairness and unfairness and may not ever get to the heart of what can be done. As the budget is being discussed, no one expects that the state is going to find $180 million to bring state employees to market; a reasonable person would think that to be ridiculous, so **Ms. Heilman**'s expertise tells her that the system was designed as best people could imagine in 1994 but it is not specific enough and it does not target issues clearly enough.

Ms. Heillman suggested that the committee imagine this scenario: this committee might come up with all sorts of strategies, perhaps one saying that the state really needs 5% CEC next year, but one of the things to imagine is that from that 5%, engineers and nurses might get 10%, financial specialists who are much closer to the market might get 2%, maybe executives whom you felt were compensated fairly enough and didn't want to get a big boost at the last of an administration might get nothing, all those scenarios being within a 5% package, and all within your authority to enact. **Ms. Heilman** believes that even with scarce resources a much better job can be done if everyone is very conscious and specific about what the state wants to do. With that **Ms. Heilman** shared a story to illustrate how this problem has compounded and that what the state has inherited is a compound issue. The Associated Press ran an article just recently stating that FY 2005 pay increases averaged 3.5% and there was a survey done of 1,350 employers nationwid, and reflects pay practices that affect nearly 13 million workers. A rebounding economy and improving job market aren't translating into big pay raises for U.S. workers who will get an average of 3.6% increase this year. Some workers may get more if their boss is really pleased with their work. This is the third year employers granted raises under the 4%+ levels common in the 1990's, but individual workers are actually doing better because of the use of one-time compensation such as bonuses. Employers are under pressure to hold down costs, most reluctant to increase base pay and more often use one-time bonuses and rewards. **Ms. Heilman** commented that looking through history, you will see that the state did not average 4% during the 1990's and did not average 3.5%, so when the market moves like that, the state might be running as fast as we can but the market is running ahead at a much stronger pace and sometimes it laps ahead.

With that in mind, **Ms. Heilman** referred back to the title of her presentation : "Are we complying with the intent of state compensation statutes and the Hay Plan?" **Ms. Heilman** referred to a packet of information she handed out at the meeting on July 25, 2005, a copy of which is available in the Legislative Services Office. It is entitled: "State Compensation Statutes, July 2005." In the first section under Definitions (67-5302) there are two areas to bring attention to: are we in compliance with the Fair Labor Standards Act in that are we classifying individual jobs as administrative, professional or exempt and are we paying overtime as we should be? The answer is "yes." DHR did an audit when the Fair Labor Standards Act rules were updated last year and DHR is in compliance. Also under Definitions (67-5302) in 2(15) on page 2 "Holiday": this section is actually in conflict with another section, so in essence many agencies are trying to be in compliance with this section that says at the very end of (15) "A holiday is a day of exemption from work granted to employees during which said employees shall be compensated as if they actually worked." The essence of the conflict here is that some employees work ten hour shifts or longer and if they are off on a vacation day their agencies want to pay them those ten hours; another section of code that says everyone in the same classification and pay grade needs to be treated the same across the state, so an agency may have assigned a shift that works better for their system and it's in conflict with another section. We are in compliance with the rest of the Definitions sections.

Page 5 (67-5303) talks about nonclassified employees and the only area of concern here is that in code in (j) that refers to higher education, because we have pinned down that entry rate on our pay grade for several years. That entry rate for that pay grade that says (355) Hay points is probably far out of someone's imagination when they designed this section of code and it may need to be reworked. The institutions of higher education are in compliance here, but what this meant when it was written compared to what it means today is far different because of the way the state's salary structure has been stretched during tough budget times.

Regarding page 6 (67-5304) dealing with the approval of DFM, **Ms. Heilman** commented that DHR has tried to streamline their systems but still there is a question when an agency wants to give ongoing raises, whether they have the budget authority to do that and what is going on with the rest of their budget. These difficult economic times have really stretched every director, budget and program manager to keep up with the cost of gasoline and inflation when those are not funded, so when a pay raise goes through it really is not just about if the employee had a performance evaluation, which DHR has automated so if an agency plugs that in and if a performance evaluation is on file it bypasses DHR. The issue is when it does get to DFM, they have a responsibility to look at the whole budget. We are technically in compliance, but in reality the tighter the budget the stronger the role of DFM; obviously the Governor, through his policy advisors and the policy he sets, instructs DFM in that manner, as well should be. Otherwise the state would end up unintentionally with many supplemental appropriations having not considered the budget as a whole.

Senator Compton asked if **Ms. Heilman** was suggesting changes with her comments. **Ms. Heilman** referred to 67-5304 and said that she was not suggesting changes but rather as it is looked at, whether we are in compliance, as it was written? **Ms. Heilman**'s interpretation was that DFM or the Governor's budget office does not have approval and specifically the drafters of this legislation just wanted DFM to worry about it if it was within the budget constraints of the agency. **Ms. Heilman**'s imagination takes her to where agency directors would be able to give raises and their wouldn't be a central budget office approval other than their whole budget plan, but as the state has struggled through difficult economic times, sometimes the operating or capital or trustee in benefits is not sufficient for all the pressures put on that, so DFM has to work with policy advisors and the Governor to make sure the appropriation is going to cover everything. Sometimes there may be issues about raises in certain agencies. This section of code is stressed due to budget constraints.

Senator Compton asked if the code needs clarification? **Ms. Heilman** commented that it doesn't necessarily need to be rewritten, but if this committee comes up with recommendations, you may well want to make some requirement or code or intent that when you appropriate money for the personnel budget, that is where it must go. Right now, sometimes, it does not always get spent on personnel costs.

Senator Andreason commented that it follows that rule that an agency can move money down but not up.

Ms. Heilman referred to page 7 (67-5309)(b) commenting that DHR does use relevant markets and benchmark job classifications and we are in compliance. On page 8 (67-5309A): "all classified employees of like classification and pay grade allocation shall be treated equally with reference to personnel benefits." **Ms. Heilman** stated we are in complete compliance with this because everybody is treated equally; however, she would suggest in this area of code that the committee consider asking: "Do we as a state, because we have at least 1,300 different kinds of jobs, want to have different pay packages or compensation packages for different skill-leveled employees? This code says that if they are in the same pay grade and like classification, they have to have the same benefits. What the private sector is doing and some other states is that they have an executive pay package, they have a middle management pay package, they may have one for skilled labor and an entry pay package. When you look at the cost of the benefit package and when you look at the eligibility package which right now is set up so that when you come to work an employee needs to work three months to be eligible for health care. When you are trying to recruit an engineer or a highly skilled professional or a doctor and they are considering leaving their current position to come to work for the state and you tell them that for three months their health insurance is not paid by the state of Idaho, some candidates actually laugh. When you tell these same candidates they will only get two weeks of time off they are shocked because it is so out of sync with what they would be offered for their skills and abilities in the private sector. That waiting period for health insurance and two weeks of vacation is probably a really fair market approach for low skilled employees." **Ms. Heilman** continued, asking for the committee's imagination with this section of code (67-5309A) as a possible solution: "We have in code already the ability to do something different, something that targets our dollars to more closely match the market; there is an opportunity there for us."

Ms. Heilman stated that the second part of this code says that we will have a benefits survey conducted annually (changed in 2004) and DHR did there very best last year to do a benefits survey; DHR is working on that again, and DHR is in compliance with that. It is difficult because DHR is asked to compare to private sector employers in Idaho; larger private sector employers in Idaho are playing their cards very close to their chests because they don't want to reveal data that would damage their competitive advantage with their competitors for talent. So DHR gets the best information they can, but may be "homogenized" when received to protect those businesses' information.

Page 9 (67-5309B)(a) is where we really start talking about salary structure. "The administrator of the division of human resources shall determine the relative worth of each job classification .." **Ms. Heilman** stated we are in compliance with that making sure that our internal equity is strong. DHR uses the Hay guide chart profiles in which all jobs are factored and slotted on a salary schedule in the classified service based on that. **Senator Compton** prefaced his question by first stating that the state may need to tailor different compensation packages more closely to fit differently skilled employees such as a physician versus a truck driver. He asked if the Hay System would continue to be utilized insuring internal equity within like positions across departments or agencies? **Ms. Heilman** responded that the state must maintain that internal equity so that the same jobs are paid the same and receive the same benefits. However, the state does not have to have a one-size-fits-all plan for low skilled to physicians or psychiatrists.

Page 9 (67-5309B)(c) again refers to that benefit survey and (d) is the report commonly known as the CEC report which is a report of salary and benefit surveys, recommendations for changes in salaries, together with their estimated costs based on the competitive labor market average of each pay grade that shall be submitted to the Governor not later than December 1 of each year. DHR prides themselves upon completion of this task on time and in full compliance with the law. That is why the report from DHR to the Governor is complete, giving as much as **Ms. Heilman** can in improvements and recommendations based on the current law as well as current recommendations for change. The Governor then submits his own recommendations. This was again changed in 2004; the Governor's recommendations go to the legislature, the legislature may decide to accept, modify or reject and then the administrator implements the final changes. DHR is in full compliance with that.

On page 10 (67-5309C) "Pay Grades and Merit Increases" **Ms. Heilman** stated that the pay schedule does reflect the Hay points that are in code, so we are in compliance. The most difficult challenge DHR has is (b) which states: "It is hereby declared to be the intent of the legislature that an employee may expect to advance in the salary range to the labor market average rate for the pay grade assigned to a classification." Are we in compliance? **Ms. Heilman** believes that a reasonable person would say "no." However, the legislation is very vague because it doesn't give a time frame for that progress.

Ms. Heilman referred back to the topic of her presentation which was "Are we complying with the intent of state compensation statutes and the Hay Plan?" When the Hay consultants came ten years ago, they said it shouldn't be more than about five years before an employee who entered the pay range then would be at policy (was at 85% then; now it's 75% of policy). You'll sometimes hear comments about the fact that employees have worked for the state longer than five years and are not yet at policy; however, that five years is nowhere in code and is nowhere in rule, because there is no authority to make a rule. If it were in code, there would be leverage for legislators and the Governor to fund that. The committee's challenge is to determine if this is satisfactory or acceptable; is this what you want? It does direct DHR in that the legislature's goal is that employees be paid at this labor market average rate, but there is a dilution factor in that which is the pay grade. The sheet with pay schedules, pay grade "J" showed entry level information technology (IT) programmers and financial specialists or accountants; last year's study showed that the state paid about $34,000 and the market average is about $36,000, so those people are only about 5% behind market. IT salaries average about $42,000; the market average is about $52,000, so the state is about 20% behind. If those 1,300 jobs in this pay grade were averaged out, you have a "homogenized" target which has grains of truth in it. We are about 14.2% behind when you average everything together, but should our goal be that both IT professionals and finance and accounting professionals have the same policy goal at the mid-point of that pay grade "J"? That is how this legislation is written; when it was written with limited available data, those Hay point factors related more closely to the market. Now we know that the market for IT programmers and accountants is much different; we have wonderful technology available now to help appropriate money by classification. So, as the committee considers what to do in the future, **Ms. Heilman** thinks the state is right on target to base our salary increases and target to the market; this is very realistic, but do we want the market to be for everyone in the same pay grade? That may be worth consideration of the committee at some point.

Senator Compton stated that he, personally, looked to **Ms. Heilman** for recommendations because this is a citizen legislature and the members of this committee do not deal with these issues on a daily basis. Starting with a blank slate is an almost overwhelming responsibility, so qualified specificity from the experts would be most welcome by this committee, and they can then decide on whether to support those recommendations. **Senator Andreason** affirmed that it is the intent of the co-chairs and the staff to request that the speakers invited to these meetings come forth with recommendations for the committee's consideration. **Ms. Heilman** responded that she is only one voice of many this interim committee will hear, but in last year's CEC report (given to the legislators for briefing prior to the first meeting) she did include her recommendation that occupational groups be considered for direct funding by those groups. **Ms. Heilman** offered to develop that further, what that would look like, if that be the intent of the committee, pointing out that there are different perspectives the committee may or may not want.

The next section, (67-5309C)(b), states that advancement of pay should be based solely on performance, and **Ms. Heilman** stated that DHR is in compliance with this section. No raises are processed unless there is a current performance evaluation on file; DHR is refining the performance evaluation process and system. When DHR was created in 1999, many agencies and managers were rating employees above average and that rating was expected; suddenly all employees were above average, or were given that rating especially in years with no raises to make employees feel better. Evidence to support that rating was often weak, so DHR was directed to come up with a new system based much more on text or evidence of the performance rather than the label. DHR went to a two-level rating system where goals and objectives were achieved for the position or not. DHR is now looking at a system much more descriptive of a an employee's performance and progression in their career by DHR rule and policy. If the committee is considering whether a merit increase should be guaranteed based on a performance rating, DHR is well under way to make that possible.

Senator Compton asked if departments were encouraged to rate high producing employees differently than ones less productive? **Ms. Heilman** responded that DHR did an analysis on that before going into DHR's new system, and the issue was that there was not a bell curve. That whole concept is being questioned in terms of whether it helps employees to know there can only be a limited number rated at the top. There is a team from DHR working out a new system with state agencies for more clarity about distinguished performers who are limited in number in the workforce. **Senator Compton** asked if **Ms. Heilman** had a performance plan as an at-will employee. **Ms. Heilman** answered that she had her instructions when she came to the state to reform the system and that is visited on a topic basis, but answered, "No, I do not have an annual performance plan." **Senator Compton** asked if she thought employee directors at her level should have performance plans. **Ms. Heilman** responded that depended on the amount of communication going on between management and the chief executive; some Governors have their executives on a balance score card with goals and objectives in every quarter where some turn in scores such as "green, yellow or red" and they tailor pay raises and bonuses on that. Some Governors have much more one-to-one communication and direct their staff that way; it depends on management style. If someone were to ask **Ms. Heilman**, she thinks that nonclassified staff should do as much performance planning as possible and written is better.

Senator Andreason stated that with so many employees below market that the committee may want to consider a plan based on whether an employee meets expectations. Above average is designed to leave some people out, and some have been left out for so long that discouragement is setting in. More employees are going to be lost and to retrain is very costly. There is an important situation here as to who is entitled to a salary increase; is it the above average or those who meet expectations? **Ms. Heilman** was asked how all this was supposed to work; the concept being that the state employee may expect to advance to this market average point. That is the policy of the legislature. An employee doing a good job, not outstanding but good, may expect to make about market rate. Obviously, the better the employee performance, the more that employee would be worth in the market, but a good employee would make that market average. Every year that salary structure would be adjusted to reflect the market, and market will cover cost of living most of the time, so those employees would continue to get raises if they were a good solid employee. That is how the system is supposed to work, keeping that employee at the market average every year. The budget is supposed to be set at that policy rate, so when a position becomes vacant, it would be budgeted at that policy rate. If it reflected market, when an employee was hired near entry, there would be a gap between what was budgeted and what was paid for this employee, but that gap could be used to pay for those employees who were outstanding. The system is designed to have flexibility. In 67-5309C(b)(ii) temporary, permanent or conditional raises gives flexibility to agencies, such as to an acting supervisor or a bonus for outstanding performance; this is a good thing as designed. However, this is not how it works and is not how it is funded; obviously the salary schedule does not have a mid-point reflecting the market, the salary schedule is not now 85%-125% but is 75%. The state is bringing in people farther below market and vacant positions are funded pinned to the entry rate. This year vacant positions are budgeted at 5% above entry, so the state is not funding vacant positions at market or at mid-point, and this grand design can't continue to evolve as it was designed because of these factors. DHR is in compliance with this because there is no time frame, but we are at risk because a reasonable person would not believe that we are in compliance with the idea that we are advancing to that average market rate.

Representative Kemp referred to Handout H, asking if her understanding was correct that **Ms.**

Heilman was suggesting that hourly policy rate, that mid-point, needs to be competitive with the market and the minimums and maximums would be part of that flexible range around market? **Ms. Heilman** answered "yes," but that policy rate was that "homogenized" average talked about earlier. **Representative Kemp** asked if the state were to fund across the board, with variations being taken into account, what would that price tag be to raise all positions to market level? **Ms. Heilman** answered that it would be around $80 million. **Representative Kemp** stated that right now the state has approximately $211 million above and beyond projection, and asked if it was feasible that this committee could ask that all state employees be brought to market. **Senator Andreason** added that the state has many considerations for that surplus, employee compensation being one.

Representative Ringo commented on the possibility of creating different benefit packages for various positions to allow compensation to be more competitive in the marketplace and to also save money. She asked how other industries compensate low wage earners. **Representative Ringo** expressed concern, hoping that the state is not thinking about digressing or eroding what is now in place, in order to save money. **Ms. Heilman** answered that the state would not get in the middle of a fray about who pays what for health insurance; however, with the incredible escalation costs of providing health care, it is no longer a contract issue for the state. It requires a huge amount of technical expertise to manage; this is a total compensation issue. There was a policy decision made by the legislature that the state as an employer would make our system structured to support parents having family coverage. Does Idaho still want that policy decision since costs have risen astronomically? Is that something that is clearly the intent of the legislature or do we want that share of the employee/employer altered a bit? Those issues need to be examined to either reaffirm what is being done right now, even though the price tag is high, or modifications may need to be made.

Ms. Heilman added that the state has a defined benefit retirement program and once an employee retires, that employee gets a benefit until they die. In the private sector, more and more companies are saying that was a great idea twenty years ago but that they can no longer afford that. Should Idaho honor our current employees and phase that program out with new hires, offering new hires a 401K? That is worthy of the committee's consideration, as well as long-term and short-term disability and life insurance at a certain rate; those are all competitive. Do you want to offer all these benefits in a state compensation package? Where is the balance? It is a very sweet deal for an employee who makes $10 per hour to receive $7,510 in employee benefits. For employees that make $30 per hour, that would perhaps be expected. Does Idaho want a compensation system whose benefit package is very rich for lower compensated employees? Is that best for the state of Idaho in all our public and private concerns? The committee perhaps needs to give more direction to balancing that package in the market.

Senator McGee expressed concern similar to **Representative Ringo**'s regarding consideration of changing current benefits, but was also intrigued as to what different benefit packages for different pay grades might look like; he asked **Ms. Heilman** for results in how this is working in other states. **Senator McGee** asked **Ms. Ahrens** if keeping state employees' families insured is good public policy? Under a scenario where benefits might be staggered, would the state still be able to keep their commitment under the current umbrella? **Ms. Ahrens** stated that ADM could run actuarial scenarios, adding that each time a change is made to health insurance coverage, there is a financial impact. What may appear to cost less could end up costing the state more in the long run. Regarding treating employees equally, **Ms. Ahrens** did not know if research had been done legally in other states, but it is critical that when decisions are made about a group Idaho's size, that actuarial consultants be listened to. When a benefit is given at a cost, those dollars must be taken away from somewhere else, or that cost must be passed on to the employee. The policy of providing a low premium to families working for the state sets an example that legislators and the Governor in the past thought that a good employer should do, so if that is changed, it could be a political decision. Actuarially, there are a number of scenarios that ADM could run. Removing the ninety-day waiting period for health insurance coverage would have a cost impact of $1.5 million.

Senator Kelly commented that some issues discussed could be construed as treading on very risky public policy direction when talking about paying lower wage employees with lesser benefits versus employees making higher wages. That would be a very serious step to consider and she was not even sure if that would be within the scope of this committee's direction; she asked for guidance on whether that would be part of this committee's charge. Any discussion along these lines should be carefully weighted and considered, especially given the morale situation currently. Although some may portray the last two years as being successful in implementation of the meager salary increases given, she commented that many state employees might not characterize those steps as being successful. **Senator McGee** asked for a study to see how other states have designed benefit packages and thinks this would be helpful just as background information for the committee, without suggesting that our state do this. **Senator Andreason** agreed with **Senator Kelly** that the state needs to be very careful in this area legally, but there may be an area that could be studied further, such as employees working less than twenty hours; what kind of benefits should they receive?

Ms. Heilman emphasized that when making decisions about compensation packages to reflect the intent of the legislature for whatever policy they deem best, she believes that market is the way to go. **Ms. Heilman** will try to convince the committee that the market for low-skilled, low-wage employees offers a different packet of benefits than benefits for highly-skilled, highly-educated employees. **Ms. Heilman** said: "The reason I have had the audacity to question the state's benefit package is that it is sucking all the money out of the state's total compensation package. If you look at the amount the state has provided for each individual employee for health care insurance versus the amount provided for salary increases, health care has skyrocketed." It is wonderful the state has been able to provide benefits, but the state must address salaries There are scarce resources and other options must be explored to allow the state salaries to reflect the market. Decisions about the benefit package need to be made with much thought about their cost and impact upon ability to attract and retain quality state employees. The baby boomer retirees are going to have to be replaced, and the replacements are being hired at the same salary as the baby boomer who has just retired, so the state is not saving any money at all. An employee who has worked for the state for thirty years may retire and their replacement is being hired at that same rate; something needs to be done about salaries. With respect to every decision maker involved in the executive and legislative branch, **Ms. Heilman** believes that the state needs to look closely at all aspects of this compensation situation.

The bonus program (67-5309C)(iii) on page 10 regarding performance bonuses was pointed out and **Ms. Heilman** stated we are in compliance. even though it is difficult at times for agency directors to understand this is only for excellent performance. This is an area of concern, because excellence is not defined. There have been those directors who believe that everyone in their department has some excellent features and have wanted to give across the board bonuses; that may be an issue this committee may want to consider.

The cost-saving bonus on page 11 (67-5309C)(iv) may be disingenuous; if an agency advertises this new suggestion program to save the state money, a bonus would be based on the amount of savings to the state, if there is any money. The difficulty is that the savings come from operations, but you can't take money saved in operations and move it up to personnel to pay an employee this cost-saving bonus. **Ms. Heilman** suggested that this section of code or another be amended to read that a portion of those savings be moved into personnel so that this program could be funded. This is an awesome program; other states have saved hundreds of thousands of dollars and employees have gotten $20,000-$50,000 for making suggestions that save their state tremendous amounts of money. Many other states have implemented this cost-saving bonus; in Idaho, it will get no traction until it can be funded. In 2004, about nine employees got cost-saving bonuses. Be very careful about employee morale around this issue, because if you advertise and you can't deliver, employees feel as though they have been duped; consequently, DHR has tempered their support for this bonus until funding is dealt with.

On page 12 (67-5326), Hours of Work – State Policy – Overtime – the third or fourth line refers to holiday and vacation leave. The state has some employees who work ten-hour shifts in their department; other same level employees, similarly classified, do not work ten-hour shifts; DHR has done the math and all employees are guaranteed a holiday. A problem arises when one employee gets 100 hours of paid holiday time off per year and another employee gets only 80 hours guaranteed holiday time off per year; this needs to be corrected in code. Agency directors would like the flexibility to set their work schedules for what works best within their departments, which **Ms. Heilman** fully supports; however, then holidays cannot be equal across the board. This was attempted to be changed by rule and by code section; this was not successful passing the Senate; the House did approve it.

We are in compliance with laws about overtime on page 14 (67-5329), as well as on page 15 (67-5330). The State Controller's Office, Division of Payroll, has been excellent to work with on payroll issues making sure that our systems support statute. On page 18 (67-5333), sick leave is in compliance. On page 19 (67-5334), vacation time computation is based on seniority and really doesn't reflect the market, so this is an area of statute the committee needs to consider changing to make certain occupations more in relationship to the market than seniority. As a point of reference, the new workforce today is not coming to state employment with the expectation they will be here until they retire. The state is attracting employees who are in mid or end career and those in middle career, such a military retirees, and from a diverse group. No one is expecting the state will guarantee them employment until they retire; employees don't expect that from major corporations, who used to hope that would be the case.

On page 20 (67-5335), vacation time, we are in compliance; (7) is the state's leave transfer program, and we are in compliance. We are clearly in compliance with (67-5337) regarding cash for unused vacation time. On page 22 (67-5339), use of unused sick leave toward premiums for insurance, once a person retires, and we are in compliance. This is an issue that several legislators have proposed changing, removing the cap. As a point of reference, in **Ms. Heilman**'s recommendations in the CEC Report last year, she opposed removing the cap on this unused sick leave account because the ongoing cost would be about $1.4 million. It is her firm belief that if there is $1.4 million of ongoing money available, the state should put that into salaries.

Senator Andreason asked if that included a consideration for the loss of production as a result of being on sick leave? **Ms. Heilman** answered that the loss of production for being on sick leave would be difficult to quantify; that was the actual PERSI cost of implementing the legislation. **Ms. Heilman** did agree there would be some loss due to employees on sick leave, but there are federal laws and good public policy that supports working families and employees do need to take sick leave. People can argue that taking sick leave is an option, but it isn't optional for an employee having a heart attack, or a cancer patient, or for surgery. If an employee is blessed with good health and has a healthy family, that is wonderful; that employee should be able to cash that in, but **Ms. Heilman** is very passionate about the idea that employees who use their sick leave are somehow doing that intentionally versus saving it.

On page 24 (67-5342), severance pay, **Ms. Heilman** directed the committee to a phrase which read: " ... no classified or exempt employee shall be eligible for severance pay ... shall mean money, exclusive of wages or salary, ... to someone who resigns from state service ... and not under duress."

The state does not pay severance pay; that is very clear, but what does "not under duress" mean? That is foggy and some have argued that basically a person is being forced to resign; therefore, is that employee eligible for severance? What happens behind the scenes is that if a classified employee is dismissed, hires an attorney and fights the system, many times these cases are settled and the person walks away with some cash, sometimes substantial, to settle. There is great expense for attorney time and money to fight these cases, so when the state settles on such cases, is the state not, in essence, paying something similar to severance pay? **Ms. Heilman** invited the committee to look at the layers of all these issues. Sometimes the state does pay employees to settle a dispute as they leave state employment. That completed **Ms. Heilman**'s review of the statutes.

Ms. Heilman's closing remark was that Hay consultants on every visit have said that it would be very important if there were a three to five-year rolling pay that the majority of the legislature could get behind to help the state move forward with this salary compensation issue. If there is any way to come up with a consensus about what the committee wants to do, and to convince your legislative colleagues to commit to that, then a longer-term plan could roll forward having enough common ground, with that consensus for support, to help the state move out of its current situation. Idaho could then become a more competent employer in terms of ability to recruit and retain employees, at all levels of state government, from the professors of engineering to the custodial staff, all of which are very important, but they have a different place in the economic market.

Representative Kemp asked if there were eleven potential areas of change based on your comments today and if that was correct? **Ms. Heilman** stated there were at least that many areas of change in code, but probably the biggest is: "What is the policy that the legislature wishes to have as their goal, if it's not market? Is it 95% of market, or is it 90%? Do you have a policy about where the state should be in the benefit package, such as, do you want to continue to support families? There is the policy that needs consensus; then the various areas of legislation or code could be crafted or altered to match, making that policy more meaningful and obtainable."

Senator Kelly asked **Ms. Heilman** about the state having a current system to administer benefits in ADM, a certain level of decision making in DFM directly with the Governor's office, and administering personnel to some extent in DHR, in addition to PERSI being involved. Do you have any comments about how this is set up structurally and does this cause problems; could the legislature address any problems this may cause? **Ms. Heilman** answered the current system does not cause problems; some other states and their Governors are looking at ways to redesign state government to make it more effective, partially due to technology available to monitor and communicate more quickly. There are some states that have taken all their IT executives and have them answer to the chief information officer, which in our state would be **Director Ahrens,** but there are some states that have taken all their agency human resource managers and had them answer to their chief human resource officer for more consistency. There are some states where the Governor has taken the IT portion, the administrative function, the budget function and the human resource function and made a department of management services that answers directly to the Governor at a cabinet level. Some states have their retirement system, their health benefits system, and human resources all under a broad department of personnel. **Ms. Heilman** does not think there is one best way to do this. Having come from a national conference last week, **Ms. Heilman** sees that about half the states' DHR directors do not have any responsibility for health insurance benefits and one-half do. Due to the enormous skyrocketing of those costs and the development of compensation as total compensation, these DHR directors are having to learn, pay attention and participate on a much greater level with all the decisions made about health insurance in both cost and design. DHR, ADM, and PERSI all answer to the Governor in Idaho; PERSI has a board in between, so they are more autonomous, as well they should be. To possibly integrate all these departments would fall to the legislature. Any dramatic change in the benefit package, to increase compensation, would probably be a huge policy issue. Directives such as **Ms. Heilman** suggested would require everyone working together, for example, on wellness programs. ADM does a great job with the contract to make sure there are benefits and employee education. **Ms. Heilman** thinks that if the committee can view this system as integrated and almost seamless, and charge the agencies to work that way, the system would probably work a little better. Structure doesn't need to change, in her opinion, but directives in the budget process are addressed separately to the legislature and integration is needed at a policy level.

Matt Freeman, Senior Budget & Policy Analyst, Legislative Services Office was the next speaker.

He was asked to give a brief history of Change in Employee Compensation (CEC) Funding, and review of agency use of funding appropriated for personnel costs; he presented a power point presentation entitled "Personnel Cost Funding Overview," a copy of which is available in the Legislative Services Office. The first chart showed the 10 year historical comparison of CEC from 1996 to 2005 and actual expenditures, percentage changes to see where CEC has been in the general fund. The personnel commission recommendations or DHR's recommendations prior to FY 2001 was shown, the consumer price index percentage of change and the actual CEC funded percentage. The average annual change for general fund was 5.15%, the recommendation was 4.53%, CPI was 2.46% and the CEC actually funded was 2.70% from 1996 to 2005. The next table showed an annual survey conducted by WorldatWork surveying 12.7 million employees from 2,700 organizations, and the average annual change was 4.1%; average CPI was 2.4%.

In the state budget laws it states: "No appropriation made for expenses other than personnel costs shall be expended for personnel costs" of the particular agency for which it is appropriated. Agencies can move money down, but not up, and personnel costs are at the top, and operating expenses, capital outlay and trustee and benefit are below. If agencies have salary savings, they can reinvest that in their workforce, but they could also move it down to cover operating expenses or purchase a new copier. The budget laws are structured that way. The compensation statutes state that advancement in pay is based solely on performance; there is also a provision which is known as a temporary salary increase or short-term commendable increase. "When necessary to obtain or retain qualified personnel in a particular classification ... a higher temporary pay grade may be authorized" by the DHR administrator. A "department director may grant ... a lump sum bonus not to exceed $1,000 in any given fiscal year based upon excellent performance."

With regard to salary savings, **Mr. Freeman** consulted with **Ms. Cathy Holland-Smith**, Principal Budget & Policy Analyst, Legislative Services Office, to produce a model with several different scenarios showing different sized agencies and put together the next five charts shown. The charts were entitled Small Agency & Low Turnover; Medium Agency & High Turnover; Medium Agency, High Turnover & Compression; Large Agency, Underfunded & Medium Turnover; and Large Agency, Underfunded & High Turnover. These charts reflected costs to lose and replace employees and the effect on different sized imaginary agencies. Compression is when a starting salary range is close to the same as the employee who left. State employee pay is not keeping up with market, and new hires are being brought in at the same salary as their incumbents. These charts showed scenarios to illustrate the concept of one-time versus ongoing salary increases and how that can be used.

Representative Roberts commented that the Controller's Office can generate a report showing vacant positions, authorized budgeted positions that an agency has money for, and some of those positions remain unfilled for months. When those positions are not filled at all, where do those dollars go? **Mr. Freeman** answered that the positions fall off the system after one year. If less than one year, those ongoing savings will be reflected until the position is filled. **Representative Roberts** asked how much trouble it would be to plug in actual agencies to the scenarios presented previously by **Mr. Freeman**? The key would be determining the actual length of employment and to average out the position and the position salary; if the turnover rate was available, average figures could be shown to the committee.

The next presenter was **Colonel Dan Charboneau**, Director, Idaho State Police (ISP), who shared ISP's experience with recruitment, retention, compression and to share with the committee his agency's internal funding mechanisms and policies regarding salary enhancement. In February, 2003, the Joint Finance-Appropriations Committee (JFAC) was told that 3 of 13 of ISP's available forensic scientists had left ISP employment, the sole reason being higher pay. This placed in jeopardy both ISP's DNA and firearm analysis programs. In January, 2004, again before JFAC, a plea was made because ten ISP troopers and detectives from the Treasure Valley this year left ISP to go to other local police agencies. This is nearly 19% of the 53 available commissioned ISP officers in this region. The reason cited for the moves was the ability to advance in their salaries and benefits not just initially, but over time. They are looking for an agency that offers opportunity, meaning advancement based on attaining clearly stated experience and education benchmarks.

ISP developed a temporary "fix" for the forensics program by using budgeted funding for two and one-half vacant positions in the forensics services functions, combined with group money and a transfer of funds from the director's office, to boost salaries of laboratory personnel. Leadership at ISP cared enough to look for avenues internally to address pay issues meaningful for their employees. Since the award of those salary enhancements, the forensics program has not lost a single scientist to other employment.

Legislative intent language gave ISP courage to step out and look for ways to grow a forensic program salary plan into an agency-wide salary plan, addressing recruitment, retention and compression issues across all programs. ISP has taken a proactive stance in addressing employee compensation by developing an enduring pay plan complete with career ladders for all ISP employees, both commissioned and noncommissioned. ISP calls this plan Project CHOICE - Creating Hope, Opportunity and Incentives for Career Employment. Copies of the plan are available at ISP and the Legislative Services Office. The CHOICE plan is ISP's ultimate goal, but will require significant ongoing budget increases to implement. ISP did not stop there, waiting for full funding. ISP also developed an interim pay plan, a way to move forward with administering CEC increases and bonuses that were consistent with Project CHOICE, and preserved existing pay structures. Using approximately $300,000 of salary savings ISP implemented both its interim pay plan and the FY2005 CEC plan early, on March 28, 2004. The interim pay plan allowed ISP to address some internal cultural issues as well

Within the Patrol program is the Commercial Vehicle Safety unit. This is a primarily federally funded program for enforcement of commercial vehicle inspection regulations, including the transport of hazardous materials. The program requires a high level of specialty training and knowledge. Officers in the CVS program are called "Specialist" and are paid at a higher level than Troopers. Because pay was relatively static for a number of years, Troopers looked at promotion to open CVS positions in terms of enhancing their salaries, not necessarily in terms of performing the work-related duties of the CVS position. In some cases, performance issues developed. Much the same dynamic occurred with openings in the investigations program. Investigation specialists are hired from the Trooper ranks. Troopers with little commitment to investigative duties applied in the hope of increasing their salaries. This is not a healthy agency culture. By creating a plan that rewards all employees for increasing levels of expertise, lessens the practice of making a job change just to get a raise.

ISP also addressed its single serious compression issue: pay of the long-time Trooper versus pay of the incoming recruit. With the movement of pay lines over time, the salaries of Troopers at the five-plus-year mark were not significantly greater than salaries of recruits freshly graduated from the Advanced Training Class. **Colonel Charboneau** addressed the subject of compression, since the committee specifically asked agency directors to discuss that dynamic. In the guidance message, there was a statement that accurately illustrates a very important point. That statement is "Compression occurs when a new employee's starting wage is the same, or close to, the salary of a current employee in the same job." Why does this occur? The answer is complex and varies due to unique circumstances. However, another answer lies with our system. The Hay system is a classification system; he had no argument with it as a classification system. However, **Colonel Charboneau** thinks the state got into trouble when the classification system was combined with ongoing compensation administration. That creates the potential for compression right there, in his opinion. For example, there currently exists one classification for ISP Trooper, but a career as a Trooper can span thirty years. Internally, ISP recognizes six benchmarks in the life span of a Trooper and ties those benchmarks to compensation. Many distinctions are currently tied to one classification; so while the interim pay plan reflected appropriate salaries for all levels of Troopers, ISP's internal benchmarks are not recognized within the current state compensation plan. While the increase in pay from the interim salary plan appears in the short-term to have impacted the exodus of trained officers, the pay scale for ISP employees is not yet in balance. The short-term fix is only a band-aid.

Project CHOICE, as an agency-wide pay plan, is still ISP's goal. DHR's CEC report to the Governor released December 1, 2004, carried information on pages 12 and 16 consistent with the Project CHOICE pay plan. For about one year, ISP was marginally competitive with local police departments, but continued to trail Oregon and Washington state police agencies. Washington pays 21% more to entry level Troopers and 38% more to five-year Troopers; Oregon pays approximately 20% to entry-level Troopers; nationally Idaho ISP Troopers are ranked 39th in total compensation. The ground gained has begun to erode, however; the latest challenges continue to come from large municipal agencies within Idaho and surrounding state police organizations. Boise City recently budgeted an unheard-of retroactive pay raise of 3.5% for the Boise Police Department, retroactive to FY2004. Montana enacted legislation that increased vehicle registration fees specifically to address salary equity issues in the Montana Highway Patrol.

Service demands continue to grow. The 2000 census indicated that Idaho's population has increased 26% since 1990. A statewide network of more than 60,000 miles of road and 4,000 bridges is available to the driving public and ISP is charged with the safety of the motoring public on these roads. If the much-needed GARVEE bond project is as successful as projected, surface roads will increase in Idaho.

The Boise Police Department currently has 25 openings; Nampa has six openings. **Colonel Charboneau** just lost a very valuable Trooper, Mark Todd, in northern Idaho, to accept a position with the Coeur d'Alene Police Department. Trooper Todd is a rare individual who always went above and beyond normal job responsibilities. He was instrumental in putting into place a winter driving program for the public as well as elderly driver's training. The loss of Trooper Todd is due to money; he will take a short-term cut but the potential for future earnings has driven him to leave for better opportunity for his family. This incident greatly saddened **Colonel Charboneau** and fears losing many more Troopers to other agencies if dramatic changes are not made to the Idaho compensation plan, this may simply be the tip of the iceberg. Market value must become an integral element of the salary determination that must be continually updated in any compensation plan. Even though ISP has been innovative, there are ongoing challenges, challenges that must be met.

Colonel Charboneau's compensation philosophy is simple; he wants ISP personnel dollars to goto reasonable salaries, addressing inequities and rewarding excellence. Only when he cannot guarantee that salary savings will be ongoing, does he consider using personnel funds for other purposes. For example, ISP was able to last year to do some incredible things with a portion of the excess risk management funds. ISP had a total of $109,600 in general funds and $101,300 in dedicated funds. The excess risk management funds allowed ISP to retain salary savings and use them in combination with their unspent 1% bonus moneys from earlier in the year to provide all eligible full-time employees (419) a one-time $400 bonus and 26 part-time employees with a one-time $250 bonus. ISP moved the general fund portion of the risk management funds to capital outlay to replace six police motorcycles. Finally, ISP retained the dedicated fund portion of the risk management funds to provide cash for the purchase of capital outlay items in FY2006. ISP has taken steps to address salary issues, but they are at the point where internal resources are exhausted. Two years ago, ISP's budget analysts convinced **Colonel Charboneau**, who was conservative and reluctant to commit, that there was room to invest in employees, based on average turnover rates and the time necessary to complete ISP's hiring process. Over the past two years ISP has tried to maintain the interim ISP pay plan; ISP's budget analysts now say that ISP has reached their comfort limits with anticipating salary savings. Absent legislative relief, ISP may invoke the legislative intent language in the ISP budget and give up positions to create funds for salaries to retain and reward ISP's quality employees.

When **Colonel Charboneau** spoke to the CEC in 2004, he asked for three actions from the committee:

1. That they would support innovation and creativity within agencies to find the dollars with which to care for ISP's most important resource, our people. They have done that, and ISP has put in place an interim pay plan.
2. That they would applaud any efforts **Colonel Charboneau** made as their partner and teammate, to reward ISP employees and retain the state police portion of Idaho's workforce.
3. That they would review and update ISP's benefits package to ensure that benefits are a meaningful part of the whole compensation package for employees.

Colonel Charboneau continues to receive encouragement from members of the legislature with offers to assist him in ISP's endeavors. **Colonel Charboneau** has done what he can within his budgeting mechanisms at ISP, putting together a plan to meet the present and future needs of ISP. To the extent that he can, he has implemented the beginnings of Project CHOICE, but ISP needs your help now as a committee and as a legislative body. There are few alternatives left to protect your investment and the consequences of those alternatives are many, but with the committee's help, we can find the way together. At the end of the day, the winners must be the citizens of Idaho; they expect to see ISP on the highways, coming to their aid. The public expects to have a fully functional forensic laboratory and to be safe from drug traffickers and terrorists. That is ISP's responsibility as a law enforcement agency.

Senator McGee asked about ISP's loss of **Trooper Todd**; he commented that in order to find a solution to losing extremely valuable employees, the state needs and wants to retain employees who go above and beyond what basic job requirements are. **Senator McGee** asked if ISP needs more freedom to use ISP dollars to keep employees like **Trooper Todd**? **Senator McGee** stated that he sees a possible disconnect, in that ISP was able to use salary savings to purchase much needed motorcycles and equipment, and asked how legislators can help ISP, allowing them to use dollars to go toward retention of their valuable employees? **Colonel Charboneau** responded that dollars, with regard to risk management funds and the one-time bonus money was one-time money, not available for ongoing salary increases. ISP needs, ongoing salary increases; the competition all around the state where increases in salary are being offered makes ISP's five to ten-year employees especially vulnerable. ISP's troopers with five years of service, after instituting the interim pay plan, were being paid $20.20 per hour. A comparable wage at the Coeur d'Alene Police Department is $27.32 per hour. There are salary increase plans in place in other law enforcement agencies; officers can visualize where they will be in five years because that career ladder is set up. **Senator McGee** reiterated that ISP has not only a funding issue, but also a structural issue as well. If incoming ISP officers are paid $7.00 per hour less than the city of Coeur d'Alene's officers, there is a twofold issue; that was affirmed to be true. **Colonel Charboneau** answered that Project CHOICE is a very good framework that does need to be updated and brought to market value; however, Project CHOICE is the career ladder that ISP needs to remain competitive. To make Project CHOICE a viable, ongoing, sustainable plan, funding is needed.

Senator Stegner asked if the point system in Project CHOICE was ISP's target plan or the interim plan currently in place? **Colonel Charboneau** stated that the interim plan was based upon ISP's creative use of budgeted funding to boost salaries; Project CHOICE is built on establishing a career ladder for three separate classes of personnel within ISP. The point system applies to Project CHOICE. This is built upon the compensation system allowable inside the Hay Plan and shows the number of points, say for years of experience, as shown on pages 38-41 in the CHOICE booklet. **Senator Stegner** asked if Project CHOICE was a plan under development and not yet implemented by ISP; that was affirmed, since there is no funding to currently implement Project CHOICE. **Senator Stegner** pointed out that he was not critical of Project CHOICE, but was gathering information only, adding that he noticed that a point was awarded (as shown on a slide) where it said that one point would be awarded for each year of service. Have there been any discussions within ISP as to whether that concept conflicts with the state merit pay plan? The state does not normally reward on seniority basis, and does Project CHOICE deviate from that? Does ISP need that flexibility which is not allowed by state law?

Colonel Charboneau pointed out that Project CHOICE was not crafted by ISP alone. It was developed with the help of DHR, DFM, the Legislative Services Office, Division of Budget and Policy, with ISP's help. These groups tried to fashion what would be a reasonable career ladder for ISP, including a system for working through those steps or ladders. **Colonel Charboneau** continued by stating that "meets standards" has always been equal to "merit" when receiving guidance for awarding bonuses, so Project CHOICE is consistent with having a "meets standards" rating, reflecting that an employee, during that year, has done the job required of them; that experience should be worth something. A first-year employee would not be qualified to be testifying before this committee as a director, for example. **Colonel Charboneau** believes that his thirty-four year career experience with ISP counts for a lot, and he believes good performance experience does matter; bad performance experience should not be rewarded. He thinks Project CHOICE is consistent with guidance for awarding performance bonuses that meet or equal a merit bonus. **Senator Stegner** expressed concern about Project CHOICE; it is a potential salary plan that awards points leading to pay increases, one point suggested for years of service and seniority, versus pure merit, asking if that satisfies the statutory requirement of the state, or does it conflict with state law in the merit pay system Idaho has? This question was deferred to **Ms. Heilman**, and she responded: "Yes, but DHR worked extensively with ISP's team in developing Project CHOICE, and DHR believes there is a problem in some public safety jobs where it is very difficult to differentiate performance between individuals. However, they seem to be able to perform better with more experience. The code right now says 'can advance as employee is productive or meets the goals and objectives of that particular position.' So, if an employee has a 'meets expectations or meets the job requirements,' then an employee would get a point for that year of experience. DHR was quite cautious with this, and DHR explained in their CEC report one of the improvements to the system would be to recommend a step-wise progression system for public safety. It is in that CEC report given to the committee." **Senator Stegner** agreed that, at first glance, this point system might appear to not meet the state's standard, asking if it would be advisable to pursue this kind of point system, particularly in public safety, but could it be applied to any number of job classifications within the state? Wouldn't that fall within an area that potentially the legislature should consider changing, if the general policy of the state is being considered for change? Doesn't this area need to be redefined? **Ms. Heilman** responded that this question is very difficult; it may or may not be market related. She thinks the state may want to look at valuing experience, but if the state goes by market, that will value experience; so, it is difficult to give a yes or no answer to that question. The quality of that experience should probably dictate greater weight, rather than the experience itself, and apologized for such a vague answer. This is worth looking at, as well as the reason an employee would advance; the state has to decide what the priorities are, as to how that employee will advance in line with the intent of public policy. Anything set up that takes priority or precedence for a dollar over another, probably has a related cash value.

Senator Compton asked if ISP needed more categories for their troopers and **Colonel Charboneau** affirmed that to be true, referring to page 38 of Project CHOICE. The pay plan reflected there stays within the current compensation pay scale and that needs to be revisited, because the amounts are outdated far beyond two years. Project Choice also sets up different levels for detectives. ISP wants to set up a system which is best for the citizens of Idaho. If ISP has an excellent trooper like **Mark Todd** who wants to remain with ISP on the road, doing what he does best, ISP does not want to lose a trooper to another agency as a detective, and then he may not be as great a detective. **Colonel Charboneau** believes that Idaho must put a system together to allow dedicated employees who want to stay in a specific field where they excel, doing the job they were hired to do, to retain these outstanding employees and provide a career ladder for them.

Senator Compton applauded ISP for including in Project CHOICE the awarding of a point for taking on jobs of greater responsibility through training and education; he believes that employees should be rewarded for that, and incentives should be in place. **Colonel Charboneau** also pointed out that points awarded can also be taken away, if an employee is not doing a good job. There are contract points, and once awarded, an employee cannot reap that benefit and relapse in job performance without their being a consequence. Project CHOICE rewards good employees who are doing jobs they love, which leads to good morale and employee retention. **Senator Compton** publicly acknowledged the excellent work of ISP in the recent horrific crime in northern Idaho that received national news coverage. ISP does not just keep our highways safe; ISP has excellent detectives and forensic teams as well, working to solve crimes. **Senator Compton** thanked ISP for a job well done.

Representative Roberts commented on new hires at ISP versus new hires for Ada county, Nampa, the city of Boise, and asked what the roster looked like for individuals wanting to work for ISP? Is there interest in being an ISP entry-level trooper with a starting salary of $16.10 per hour or $33,488.00 plus starting benefits? Much has been said about retention and keeping good troopers at ISP; at entry level is there supply? **Colonel Charboneau** could have spent hours explaining the uniqueness of trying to compete in the workforce for the same type of people other law enforcement agencies compete for. Two years ago, what ISP did with their interim pay plan, allowed ISP to become marginally competitive with other law enforcement agencies in Idaho. A new hiring scheme was put into place in conjunction with DHR to contract with a company hiring for other police agencies in this area; ISP became competitive in the same hiring pool as other agencies. ISP used to do their own testing and hiring, but by combining that effort with other agencies recruiting from the same market share of the same candidates, ISP has found that test scores have increased and the applicant pool has been better. This has been a successful endeavor, allowing ISP to be competitive, but that was all based on the fact that the salary at entry level was competitive. Currently, ISP is trying now to balance their agency's workforce, leaving positions open for eleven employees currently serving in Iraq; when they return at year-end, they will slip back into those positions. Consequently, ISP's hiring has stopped right now. Today is a totally different situation than two years ago, and it will be different tomorrow; ISP changes almost daily. **Representative Roberts** asked if in the past 4-5 years if ISP has had a situation where there has been a lack of qualified candidates for hire? **Colonel Charboneau** stated that has been the case; in the last 18 months, DHR and ISP has worked hard to fill that gap; the fear is that the Boise Police Department's 25 openings, Nampa's 6, and Coeur d'Alene having put into place their salary plan, ISP could be back where they were two years ago. It could be very difficult to find candidates willing to work for ISP at the entry salary. It takes a unique person to work for ISP; they work alone, there is no back-up, they are sometimes 60 miles from getting back-up, and they work in rural areas where others may not want to do the job that ISP troopers do.

Senator Andreason pointed out that Meridian is also increasing their law enforcement by nine officers as well. He also concluded that, if the team that worked on Project CHOICE included ISP, DHR, DFM and Legislative Services Office, Division of Budget & Policy, couldn't that same team come up with a workable plan acceptable to all? If that team crafted Project CHOICE, and it was in conflict with statute, this might suggest that something is wrong with the statute. **Colonel Charboneau** responded that Project CHOICE has been circulated amongst the legislative body for several months, that it had been talked about in every committee that

Colonel Charboneau could speak to about this plan; he truly believes it can work. Project CHOICE takes into account the mechanisms ISP needs to develop a career ladder for every employee in ISP.

Representative Wills commented that he had been marginally involved in the Project CHOICE process, and stated that several things not expressed in this meeting were that DHR may need to answer, believing them to be important issues, one being the topic of longevity. There is not one shoe that fits all, in his opinion, in the Hay Plan. If the word "longevity" could be interpreted as "experience," meaning expertise, additional education and skills brought to a position is where that point factor came into the Project CHOICE program. That increase in knowledge is invaluable, and it changes an employee's job description because every trooper isn't doing only their road jobs, but numerous other projects, as educational values increased. Longevity denotes how long an employee is employed, and some positions do not change year after year; however, in law enforcement and other agencies, experience changes the description of a position. The committee had talked about the benefits regarding salary mostly, but in law enforcement, as well as other agencies, there are big discrepancies in other benefits. Boise has a 100% complete health package for their employees and has a twenty year retirement plan the state doesn't have, along with retroactive pay increases. **Representative Wills** asked for comments from ISP regarding these conflicts in recruitment. **Colonel Charboneau** responded that would be difficult to answer; ISP has to look not only at the compensation package, but the available benefits; all officer candidates consider these when choosing where to work. Finding that balance is the problem; ISP doesn't need to be the highest paying police agency, but it does need to have benefits competitive for recruitment, with some excellent features to attract applicants.

Representative Wills commented that several years ago he had talked to state employees, and got a distinct feeling from many that they are very skeptical about better benefits. He asked if state employees are still feeling that pressure, that if the state does not show employees the state has a genuine interest in their well-being with regard to salary, then the reality of an exodus of good employees could become a reality? **Colonel Charboneau** affirmed that after the last session, the question was asked often by the ISP troops about better salary compensation and/or benefits; he still believes in the Project CHOICE plan and that good work was done by that team who crafted it; it is a good framework, and now employees must talk to their legislators to gain support. There is an undercurrent among state employees, waiting to see if the legislature values what they do enough to find some way to better compensate them for the work they do.

Senator Compton pointed out that there is a $20,000 difference in salary between captains in some areas versus captains in Coeur d'Alene. If an employee is career-oriented and wants to move into a job with greater responsibility, this shows the discrepancies between agencies. **Senator Andreason** added this may be true at agencies where the cost of training is so high and is certainly true of ISP. He asked if **Colonel Charboneau** could tell him approximately how many troopers ISP had 25 years ago compared to now? **Colonel Charboneau** said that data was often debated and researched; his recollection is that the number has changed very little in 25 years, since 1972, and there are currently 144 troopers on patrol.

Representative Kemp reiterated that funding ISP was the challenge; in order to fund Project CHOICE, she asked what amount, in total, would it take on an annual basis to implement this plan? **Colonel Charboneau** responded that the figures in Project CHOICE need to be updated and adjust to a market value. Two years ago the cost would have been $4 million over 5 years to fund at the levels in the plan right now. Startup to get everyone on board would have cost $700,000 the first year; one problem is that since then, troopers have gotten POST certification or picked up specialities, so to rework this plan, ISP might need $800,000 for the first year to implement the plan. **Representative Kemp** inquired if that was $800,000 annually for five years, at a hold level, to move forward, thinking originally the figure was $4 million over 5 years. She asked if that was cumulative, or $4 million for each of those 5 years? **Colonel Charboneau** responded that as employees move through rotation, retiring, or leaving ISP for other reasons, ISP factored out those 5 years, and that price tag was at $4 million for 5 years.

Representative Kemp summarized that Project CHOICE could become an excellent model for compensation, and asked if any other agencies in the state have gone through a similar exercise? If there was a plan for each agency, that might make this committee's job and the legislature's job much easier, because there would be a request from each agency showing what they want funded. **Ms. Heilman** answered that ISP is very unique in their multi-disciplinary approach used to build Project CHOICE; there are many other agencies who have visions of a better way to pay, but no other agency has such a specific and up-to-date model as ISP. **Representative Kemp** inquired as to the charge of this group and asked if the committee, as a group, could consider that this be one of the requests the committee might make to other agencies, so that the committee could have a more strategic plan for each agency as to how their funds would be used. She suggested that this committee, many of whom have admitted that they are not experts, keep this in mind for consideration as they move forward, to potentially make this a request back to other agencies. **Senator Andreason** agreed that the committee would keep that in mind.

Pam Sonnen, Administrator, Division of Operations, Department of Correction (IDOC), was the next speaker, representing their Director, **Thomas Beauclair**, who was out of state at the time of this meeting. **Ms. Sonnen's** job is to manage the prisons and community correction programs in the state. **Ms. Sonnen** presented some facts and challenges facing IDOC, stating first that IDOC feels very proud of their dedicated staff who work in negative and dangerous environments, also offering opportunities for change to offenders and inmates. The work is demanding and emotionally draining, and factors such as economy, pay inequities with law enforcement agencies and an ever-widening pay comparison between other state agencies and a lack of comprehensive pay schedule also enter into the equation in retention of a professional workforce. IDOC is now setting up committees to form a plan similar to ISP's Project CHOICE.

This last fiscal year, IDOC experienced a 25.44% turnover, and that was just among correctional officers; those consequences are felt not only in loss of training dollars, but also in workforce shortages. There is a very strong, increasing competition between viable, potential employees. When a neighboring law enforcement agency expands their workforce, IDOC awaits losing more employees. IDOC has worked diligently to meet their recruitment needs but has fallen short by as much as 50%. IDOC focuses on three key areas: staff recruitment, retention, and morale; inequities continue to plague IDOC. In a recent survey of other law enforcement agencies around the state, it was noted that a comprehensive salary schedule was the backbone of each of their salary programs, allowing for incremental increases in salary for advancement certification and experience. To date, IDOC has no means with which to compete with other law enforcement agencies; IDOC's ability to provide economic growth in any one classification is limited to promotion or merit increases provided by legislative action or personnel cost savings.

IDOC's management team strongly believes it is essential to enhance employee compensation; the use of personnel funds to pay other capital outlay costs has severely limited IDOC's ability to provide long-term pay increases for their staff. In FY 2003, IDOC spent $4,746,600 of their personnel budget on capital outlay costs, and in FY 2004, IDOC spent $2,139,800. This also included county jail expenses. In FY 2005, IDOC spent $2,000,000 of their personnel budget on capital outlay costs. However, substantial efforts in the last few years in cost avoidance have paid off; in FY 2004 and FY 2005 IDOC was able to generate significant salary savings and was able to funnel some of these funds back into IDOC's hard working, dedicated employees. At that time, state employees had not received a CEC merit increase in about three years; IDOC was sensitive to the needs of their 1,400 employees and their plea for pay increases for a job well done. Once IDOC knew the legislature's final outcome of their decision on the CEC, IDOC's Director went to work to implement a plan for early distribution, 90 days early, so the employees would immediately benefit from both IDOC's use of available salary savings and certain funding in the FY 2005 CEC on July 1, 2005. It demonstrated a commitment to IDOC's employees and their unique contributions to the state.

Many correctional officers cannot support their families; in a survey conducted in January, 2005, 14% or 113 correctional officers have second jobs in order to support their families. Salary increases go far to advancing and reducing the need for second jobs and allows IDOC employees to focus their energy and attention to their primary responsibility of maintaining safe and secure correctional facilities which contributes to keeping Idaho safe,. IDOC employees need to spend more time with their families to keep a balanced lifestyle. In an ongoing effort for IDOC to support their employees, IDOC distributed two one-time merit payouts of $400 or $600, and a second bonus of $260 or $375; they took this from IDOC's personnel savings. On May 20, 2005, IDOC had 1,288 classified employees who met the eligibility criteria. Again on June 17, 2005, a second one-time merit was distributed to 1,290 employees meeting eligibility criteria. The Director chose to include all nine exempt employees in IDOC's merit increase and as authorized by DHR and DFM. There were employees who did not receiving an increase; that decision was based on defined criteria which was, an employee must achieve performance standards based on an evaluation, they must have completed entry probation or at least 1,040 hours, and could not have received any formal, disciplinary actions in the previous twelve months. Complementing the basic merit increase eligibility, IDOC rewarded its superior performers with an additional $200 and $175 merit increase, respectively, for a perfect annual evaluation rated in each area, as well as exemplary performance on special assignments, and demonstrating excellent leadership qualities.

As with other state agencies, IDOC received authorization from DFM on July 18, 2005, to implement the one-time merit increase of 1% on September 11, 2005 and processed by October 7, 2005. The same criteria will be used as for the merit increases in June and July. IDOC wants to ensure that their employees who are performing, not just in longevity, but also who are experienced and performing excellently will receive that money. IDOC anticipates that increase will go to about 1,400 employees and will be a boost to morale; IDOC thanks the state for this allowance. Employee morale is the key factor for IDOC's retention and morale is based on several factors: being supported as professional employees, being appreciated for their contributions, being assured fair and just treatment, and being assured a safe and secure work environment, job security and fair pay based on periodic salary increases. IDOC addresses areas that can be controlled or are influenced by ongoing pay increases, and this must remain a high priority for IDOC's employees, especially with the turnover statistics for better paying jobs.

Since 2001, IDOC's minimum security facility increased in offender population by 350, and only 4 staff members were added. Inmate to staff ratio was at 6.3 inmates to 1 staff; now it is 9.8 inmates to 1 staff. ISCI, the big facility, increased 225 inmates, with a reduction of 26 staff. IDOC's staff is being pushed beyond normal limits. IDOC is the third lowest agency with regard to compensation ratio, average hourly pay to job class pay grade at mid-point. Out of all state agencies, IDOC stands at 85%, and IDOC's employees are far behind other state agencies for reaching mid-point. Most of the working unit staff levels are lower than other agencies because they are the third largest state agency; therefore, one would assume IDOC's employees have a greater workload and yet they get compensated at a lower rate than fellow state employees. IDOC is constantly providing a means for compensation as well as recognition for employees through awards, mentoring, coaching, positive feedback, and training opportunities to provide a better staff environment.

IDOC's agency turnover is 18%, and correctional officer turnover stands at 25.4%. Due to the extremely difficult work conditions at the maximum security institution, correctional officer turnover at that facility is 43.1%. IDOC has taken the initiative to provide maximum security officers with a 5% incentive pay, and recruitment to fill positions continues to be a significant challenge. Nine hundred of IDOC's 1,400 employees are uniformed officers; recruitment shortages continue to erode their ranks. IDOC's recruitment target number in the last two recruitment efforts in the Treasure Valley alone was 70; 230 applications were submitted, and 45 offers were made, and 30 graduated. Of that 230 applicants, over half did not even show up for the interview. One of the main problems with recruitment is that IDOC needs employees with solid backgrounds, and that becomes increasingly more difficult. Correctional officer pay starts at $11.53 per hour; they can go to work almost anywhere in the state for more than that with much less pressure and probably less dangerous working conditions. New POST recruitment standards have increased IDOC's problems with recruitment; already 7 new employees did not make it through POST. Many correctional officers currently work double shifts during a one week period; they are tired, physically worn out, and that is when mistakes happen or they look for other jobs. IDOC appealed to the state for personnel funding and periodic merit increases to provide incentives so employees can strive for superior performance in their correctional careers. Being consistently rewarded for merit performance is an investment in employees, providing a more positive, productive attitude in all agencies. **Ms. Sonnen** thanked the committee for their time and attention.

Representative Kemp stated that she had a puzzle before her that she was trying to solve. If she heard correctly, IDOC, over the last 3-4 years, had taken personnel moneys and used it for capital outlays in the amount of $7 million to $8 million dollars, that being her first puzzle piece, and she asked if that was correct? **Ms. Sonnen** confirmed that to be correct. **Representative Kemp c**ontinued that the second piece of her puzzle was that **Ms. Sonnen** was here today asking the state of Idaho for more money to appropriately fund the payment of salaries for IDOC employees. Those are the two puzzle pieces; to her, these two pieces did not fit together. That much money over the last 3-4 years has been taken out of personnel and IDOC stood before this committee saying they did not have enough money to pay personnel. The third puzzle piece was that somehow this committee needs to address the issue of how moneys can be reappropriated, so that agency after agency cannot make pleas to the legislature, stating there is no money. Clearly, at some point, there was enough money for IDOC to appropriately fund a pay scale for the number of employees it had, or the moneys would have been taken away from the employees that are now low in morale and high in turnover, due to lack of money. Is there a potential solution with these three puzzle pieces? **Representative Kemp** asked for a solution, and asked for direction as to where the committee could go to gain insight into this matter.

Ms. Sonnen responded by stating that the information presented is correct, emphasizing that IDOC is a growing industry; over the last ten years the prison population has grown 100%. IDOC is spending their personnel money on inmate growth; IDOC does not have the operating funds to pay the county jails, and IDOC has not gotten money for capital outlay, and buildings and equipment that are not being maintained; that is where the money has gone. **Senator Andreason** asked at what level the decision is made to move money from personnel costs to capital outlay, and what the criteria was in order to move that money, or what circumstances are present that cause this to happen? **Ms. Sonnen** stated that the IDOC Director makes those decisions, along with ADM and DFM; at year-end, IDOC must pay their bills, say for county jails, because more inmates came through the system than were budgeted for. IDOC has huge maintenance issues, and repairs must be done on facilities, especially for safety issues; IDOC has many buildings and they are all getting older. IDOC has not gotten money for capital outlay or for buses, vans and cars to move prisoners, and for probation and parole officers; with IDOC's expansion, their IT network needs to be updated, and these things have eaten up personnel money. **Senator Andreason** asked if this money was being moved from personnel costs to capital outlay at the end of the year, and **Ms. Sonnen** confirmed that to be true, stating that it was not expended before the year-end for personnel costs because IDOC is also coming up with a comprehensive pay plan for IDOC. In that comprehensive pay plan, IDOC will have steps in place and have money for leftover personnel money to be spent in that area. IDOC's Director has talked to the Governor, to DFM, and has requested that IDOC be able to use all of IDOC's personnel money for personnel. **Senator Andreason** responded that he did not understand IDOC having to get permission from the Governor or DFM to spend personnel money on personnel. **Ms. Sonnen** commented that with the fiscal issues facing the state of Idaho, no one wants to ask for supplementals because that is what IDOC would be doing; last year alone, IDOC asked for about $7 million in supplementals; IDOC would be asking for double that amount if they did not use personnel dollars for capital outlays. Tight budgets have increased the need for IDOC to use personnel money for other issues besides personnel for the 23 years that **Ms. Sonnen** has been with IDOC.

Representative Ringo stated that in the last legislative session, a decision was made not to deal with any compensation raises until the end of the session; if she recalls correctly, when **Director Beauclair** presented IDOC's budget, the funding requested was not received. By the end of the year, it would make sense that, at year's end, IDOC would be underfunded in terms of what might be very essential repairs, equipment or purchases. So, supplementals became necessary, not due to the fact that IDOC under-requested, but those supplementals were necessary because IDOC was not awarded money, as requested, for very essential needs. **Ms. Sonnen** affirmed that to be correct; every year IDOC hopes that things will get better and that the offender increase will lessen; IDOC has not been fully funded. Many buildings and equipment are aging, and offenders just keep coming. Perhaps IDOC's lack of planning has also over the years contributed to this mode of operation; IDOC has become dependent on functioning in this manner, adding that this year is the exception because plans are now being made for a new system.

Senator Andreason confirmed that the committee will look into this subject in greater depth at a later time. **Representative Roberts** stated that Idaho has a private prison, and asked **Ms. Sonnen** if her comments reflected inclusion of their data as well. **Ms. Sonnen** responded that she did not have turnover data at the private prison, but anecdotally their turnover is even higher than IDOC's, according to their warden, because they do not offer the same benefits that the state offers. They do experience the same recruiting problems that IDOC has, and by contract the private prison cannot pay their employees more than IDOC pays their employees. **Representative Roberts** asked if that contract was negotiated with the state and **Ms. Sonnen** affirmed that to be true. **Representative Roberts** stated that he found it interesting that operational costs for the private prison, with facilities, vary somewhat from what the state's costs are; this is something the committee might want to look into, to see what operational costs are in the private system versus the state. This has been an item of discussion over the years and it may be time to look into that again. **Ms. Sonnen** answered that the private prison's costs per day and the state's prison system costs per day are very similar; the real difference is in the type of facilities. Private prisons are less costly because they do not house maximum security inmates, mental health inmates, the infirm, or females, so their population is different than the state's population of inmates. The state's costs per day are about the same.

Attorney General, **Lawrence Wasden**, was introduced next, and thanked the committee for allowing him to address such important issues. During the FY 2006 budget presentation, **Mr. Wasden** addressed salary equity, market parity and recruitment retention issues faced by the Attorney General's office, and said that he appreciates the fact that the legislature adopted HCR 22 and has taken on this important effort. As the elected chief executive office of the largest law office in the state of Idaho, it was important for **Mr. Wasden** to share his vision and goals of the Office of the Attorney General. These three points framed his presentation:

, The Attorney General is committed to providing the state with the best legal representation possible. Examples of that are the Snake River Basin adjudication, the Jeff D. case, and the constitutional challenge to the legislature's rulemaking authority and the recent sales tax case. **Mr. Wasden** had just received a brief filed in the reapportionment case, which has gone on now for half a decade. The legislature and commission finished their work in 2000, and the Attorney General's office is still litigating.

, The Attorney General's office should be an employer of choice; that is, the office of the Attorney General should be an attorney's first choice for employment. That means that his office should be able to attract the top talent in the state.

, To function at the highest level, the Office of the Attorney General must be able to retain the best legal talent.

These goals provide a constant challenge for the Attorney General, and Idaho is emerging from a slowdown in the economy which Idaho weathered better than most; **Mr. Wasden**'s office was able to continue to deliver top quality representation to the state of Idaho. For example, the FY 2006 budget is approximately $15.5 million and in FY 2004 the Attorney General's office brought in $38 million to the state, and this is typical of the yearly amounts that this office returns to the state. To give the committee a picture of the size and workload of his office, **Mr. Wasden** showed a slide presentation of the seven divisions within his office. Administration and Budget Division handles the daily management and budgeting of his office, but has no caseload. The Criminal Division has 1,099 cases, handling all the criminal appeals in the state and insures that criminals, once convicted, remain convicted. The Natural Resources Division, which protects Idaho's water, handles 919 cases currently. The Contracts and Administrative Law Division has 879 cases and handles many cases regarding rights-of-way for the state's highway system. The Intergovernmental and Fiscal Law Division currently has 628 cases; they defend PERSI and assist in the regulation and enforcement of our financial institutions, as well as serving as the legislature's lawyer. The Civil Litigation Division, which defends the state's tax dollars and houses the Civil Protection Unit, is handling 556 cases The Human Services Division is currently handling 1,440 cases which seek reimbursement from child support non-payees and the Medicaid estate recovery. This averages out to over 50 cases per attorney in the Attorney General's office and these numbers simply provide a starting point. For example, within the Natural Resources Division's caseload, one case actually consists of over 9,000 subcases and does not take into account the significant legal advice and other legal matters on which the Attorney General's deputies are consistently consulted. This caseload is in addition to the significant requests that are received from legislators during the session and throughout the year. In the last year, the Attorney General's office conducted research analysis on 190 legislative requests and further assisted the administration and the legislature on about 100 other pieces of legislation. This workload does not include all of the issues with which the Attorney General's office deals, which includes meetings, legal questions and legal advice which are all additions to the office's caseload. The state is presented with a huge number of legal issues, and this office is incredibly busy. The state of Idaho gets a tremendous "bang for their buck;" a clear picture of this compared private office legal rates with the Office of the Attorney General's legal rates. The rate in the private sector is between $125 and $250 per hour, while state agencies pay the rate for the Attorney General's office at $41 per hour as set by DFM under SWCAP, which stands for Statewide Cost Allocation Plan.

The committee asked the Attorney General to present three issues to the committee: recruitment, retention challenges confronting his office, and issues dealing with compression of salaries. How are salary increases funded when the legislature provides little or no additional personnel funding costs? The Office of the Attorney General has often been considered an employer of choice, which means that people look to the office as a first choice for employment based on a number of factors, including prestige associated with working for the office, the amount of experience gained working there, and the breadth of issues confronted on a daily basis. Unfortunately, the deputies cannot pay their personal bills with prestige or experience, which creates recruitment and retention issues for his office. In the past three years, there have been many instances where his office could not hire a first choice to a position, due to salary restrictions. One of the obstacles the Attorney General's office faces in recruiting is the significant disparity in salary between his office and the other public sector employers in Boise. The disparity is even more stark when compared to the private sector. A slide was shown indicating that the Attorney General's office trails the Ada County Prosecuting Attorney's office and the private law firms in Boise by a large percentage. For starting salaries, the Attorney General's office is facing a $4,338 gap when compared to other public sector employers. One difference arises in the city of Boise; the city salary actually begins lower than the Attorney General's office, but passes his office at the five-year mark. The city is currently trying to match the Attorney General's starting salary of $45,000, and plans an additional market parity adjustment during the next fiscal year. In comparable private sector employment, the gap is even more pronounced, ranging from about $10,000 to $23,000 for a new attorney. Looking beyond Boise, the Attorney General compared his office with the city attorney, the county prosecutor's offices in Salt Lake City and areas in roughly the same size as Boise; a new attorney in Salt Lake county makes $53,280, which means that Idaho's office is about $10,280 behind. An attorney in the Salt Lake city attorney's office starts out in the same range, which leaves the Attorney General's office approximately 24% behind that office as well. For an attorney with six years of experience, this gap leaps up to $25,300, a difference of over 50%; this creates significant recruiting obstacles. You may wonder why private law firm salaries were included in the statistics gathered; they are included because the Attorney General's office is often competing with the marketplace for the same attorneys. Additionally, the state's attorneys work opposite these same attorneys on a daily basis; in fact, they are the Attorney General's peer group. The office trails in salary range by a considerable margin. The Association of Legal Administrators' salary survey indicates that salaries for attorneys in the Office of the Attorney General trail market rates by 31.8%. Within HCR 22, it was noted that classified state employees trail the market by approximately 14.8%; Deputies Attorney General trail the market rate by more than double that rate because they are more than 30% behind the market rate. The best explanation for this effect is that the current state system does not allow for salaries to reasonably keep pace; so, for example in 2000 and 2001, the Attorney General's office received market parity adjustments that brought them within the range of salary equity. Then the economy receded and no adjustments were received from 2001 to the present, which has allowed the problem to magnify. In 2004, the Attorney General was able to give some minimal raises to employees based on salary savings from under-filled positions. When an employee leaves, the office has often replaced that position with a less experienced person at a lower salary. Relying on salary savings does not provide the Attorney General with the proper tools to adequately compensate highly skilled attorneys. According to the Association of Legal Administrators' salary survey for support staff, paralegals are 9.5% and legal secretaries are 11.7% behind where they should be. Reliance on salary savings to provide modest increases on a case-by-case basis has not permitted the Attorney General's office to keep pace with the local legal market. This leads to turnover, which in the legal support field, can be particularly time consuming due to the highly specialized and technical nature of the work. Remembering that the Attorney General's office is divided into seven divisions, the legal work is divided into highly specialized practice areas; therefore, the support staff has often specialized knowledge also which makes a paralegal's departure or a secretary's departure increasingly difficult from a case management standpoint. Additionally, lag time usually accompanies a departure when a position is open, and attorneys are left without support or required to share support staff with a number of attorneys, until a replacement can be found. Historically, looking at the retention numbers in the Attorney General's office, the good news is that the senior attorneys who leave don't just slip off into retirement. Generally, they continue working for the state; a large number of former deputies are found as district judges, magistrates and in high ranking administrative positions throughout the state. The bad news is that the Attorney General's office loses significant skills and talent, as well as institutional memory, when these high level performers are no longer deputies. Based on the system as it currently exists, the deputies with fifteen or more years of experience continue to pursue higher paying opportunities within the state, since they can maintain the significant PERSI benefits they have built up. The challenge for the Attorney General's office is to be able to hold on to this top-notch talent and valuable resource. One way to maintain this talent is to keep the Office of the Attorney General competitive within the state salary range structure. Every attorney in the Attorney General's office has an advanced degree; some senior deputies represent the top tier of employees in the state of Idaho, and they should be recognized as such. A greater challenge arises in the next level down, attorneys with five to fifteen years of experience. These attorneys are the most appealing to headhunters and are looking for attorneys to join law firms. Recent history indicates that the primary reason this group of attorneys leave the Attorney General's office is for higher salaries. Ada county salaries, shown on a slide presented, showed that the problem becomes pronounced at the five-year mark, with a difference of $9,022; at ten years, the difference doubles to an $18,207 gap. Comparing these salaries to private firm levels is even more disturbing from a retention standpoint, because the Attorney General's office cannot begin to compete with the smaller, public employer salaries. In some years, the state has not seen any pay increases, and this magnifies the gap. The equity challenge is compounded on the state level because the funding mechanism is based on a year-to-year model; extraordinary work does not equate to a corresponding pay raise. It is wholly dependent upon the state's economy and the budgeting preferences of the legislature. As professionals, attorneys are placed in a position where they work hard and are not being recognized for their efforts; they carry tremendous caseloads, they work long hours and they are loyal through economic downturns. It is these type of efforts that need to be recognized and rewarded; the Attorney General's office should not be viewed as the training ground for the rest of Idaho's legal community. It is in the state's best legal interest to facilitate career tracks for attorneys within the Attorney General's office; with over 100 attorneys, the method that works best for that office would be to base salaries on the year in which an attorney was admitted. This creates a range to use for new hires. The difficulty is that someone hired two years ago, who has not seen any significant increase in salary, is often earning less than someone with the same bar year, who was hired later. There are two problems presented here; first, the Attorney General's office is unable to hire the new person for what they hired the same person two years ago. Second, the office is unable to give even an equalizing pay increase to those attorneys who have been with the office longer. In addition to retention problems, this also signals a morale problem, particularly since salary information is a public record; there are no secrets in government. As you can see, compression creates a number of management issues, especially since the system does not provide a way to recognize hard work and loyalty of some of the best attorneys in the state. The Office of the Attorney General has been able to provide some positive incentives to all their employees over the years. When the legislature provides little or no funding for salary increases, ongoing salary savings are used, generated by filling vacancies at lower salaries, to make salary adjustments. This is not always good news. Often, the office has to hire a less experienced attorney than the person who left, remembering the disparity in salary that occurs over time. It is difficult to hire a ten-year attorney to replace a departing ten-year attorney, if being asked to work for $18,000 below market value. This usually means that the Attorney General's office is hiring less experienced people who, with the loss of institutional memory, create a training and experience gap as well. The other aspect of the salary savings issue is that, generally, the Attorney General's office cannot accrue enough savings in this area to make an appreciable impact on the overall salary gap of this peer group. Salary savings bonuses can help with morale to a small degree, but the major salary equity issue is still growing larger. The second area where one-time salary savings was used, accrued over time, was to provide bonuses that are good for morale, but they do not even the salary playing field because they are inconsistent. You can't use them in a predictable fashion like a paycheck to pay bills. The other aspect is that bonuses are capped at $1,000 per fiscal year, and withholdings are taken out, so a $1,000 bonus on paper, in reality amounts to only about $750. Bonuses are a great short-term morale booster, but cannot defray the overall impact of a salary gap that is at 31% and growing.

The final component which creates a management challenge for the Attorney General is that they are often forced to transfer funds from personnel to meet capital outlay needs. Since employee compensation is their priority, this occurs only after they have given out the maximum bonus amounts for eligible employees, but this shows another challenge that the state's system must overcome. Significant challenges have been presented that the Attorney General's office must overcome to provide the state of Idaho with the best legal representation available. As stated earlier, the Attorney General is committed to providing the state with the best legal representation possible, and the Office of the Attorney General should be the employer of choice for Idaho's legal community, and the Office of the Attorney General must be able to retain the best legal talent. Within Idaho, the legislature has a direct impact on the quality of legal services it receives. The Attorney General's office of Idaho is behind, both within the state and in the closest peer state. So far, the state has kept the legal representation at a consistently high level, but some troubling indicators are emerging, outlined in this meeting. The Attorney General is committed to working for the committee, and with them, to assure that the state can attract and retain the best legal talent available. **Attorney General Wasden** thanked the committee for allowing him to discuss these significant challenges, expressing his eagerness to working with the committee on these and other issues; together, Idaho can be moved forward.

Senator Andreason asked in what years the Attorney General's office received no salary increases; the response was that when there was no funding for salary increases, the office of the Attorney General went several years without funding increases, and those years mimicked the years when the CEC was zero. The last time the Attorney General's office was able to give a salary increase was in 2004 and 2005. Prior to 2004, they were unable to give increases for several years.

Senator McGee expressed concern over the disparity between the Attorney General's office and Ada county, and would like to see the state of Utah, Oregon and Washington's peer comparisons. Are states across the country having trouble with their attorney generals' offices competing with county offices? **Attorney General Wasden** answered that the primary competitor in Idaho for legal talent in this valley is Ada county; they "beat the state's socks off," as well as the city of Boise, and this is a difficult problem for the Attorney General's office. Whether that extends to other state attorney generals' offices or not could be discussed, and he volunteered to research that information for the committee. **Senator McGee** commented that it would give the committee, as decision makers, the bigger picture of attorneys in their peer group.

Senator Compton asked if the problem of recruiting has caused positions to not be filled for any length of time, and has there been attrition in positions which have not been able to be filled? **Attorney General Wasden** answered that there is trouble in recruiting, because they end up with many applications, but the right attorney with the right skill set is a difficult match. A first-year attorney cannot do major litigation, so a position cannot simply be filled with any attorney, and that presents very significant difficulties. The attrition rate numbers show that no positions have been lost, so eventually positions are filled, some taking longer than others. **Senator**

Compton commented that the committee hopes to come up with suggestions for the legislature to put the system on track, hopefully, especially where specialized employees are being lost. The 43% attrition in the prison system is a real problem. The Attorney General's office should be an employer of choice in the legal community, but if there is not a problem recruiting and there is not a large attrition rate, the Attorney General's office might not make the cut, so **Senator Compton** asked for the real numbers so that the committee could better understand. **Attorney General Wasden** explained that there is not a 43% turnover in his office, and offered to get that percentage for the committee; it is not simply a turnover rate, but rather it requires replacing an experienced attorney with a far less experienced one and that puts the entire state at risk in what the office is able to accomplish. **Senator Andreason** pointed out that losing an experienced attorney in that office would be a very critical matter if they have been trained for a specific area of expertise. **Attorney General Wasden** said a new graduate from law school cannot be put into a position since a great deal of knowledge and expertise is required to accomplish the work. **Senator Compton** totally respects the value of experienced attorneys, but asked for specific numbers as to vacancies and how many experienced employees have left the Attorney General's office; it was agreed those numbers will be later presented to the committee.

Senator Kelly commended the Attorney General on the quality of the legal services provided to the state, and did not simply say that as a former Deputy Attorney General. The main issue sounds to her that money is the chief issue and funding; are there other issues with the personnel system itself or the benefits, or is this strictly a funding issue with the Attorney General's office? **Attorney General Wasden** answered that funding is the primary problem; a law office has people, and the major component of their budget is people, so any dollars received goes to those people. If those dollars are not received, there is no place to pull dollars from; there is no facility to be shut down, the office is comprised of people.

Dr. Robert Kustra, President of Boise State University, spoke next. **Dr. Kustra** thanked the committee for taking the time to engage in a discussion with public higher education institutions in Idaho who believe that the challenge of finding and retaining a quality workforce is a most important priority. **Dr. Kustra** made an observation about higher education, and believes there is one distinction that could be drawn between the institutions he was representing and a good number of other state agencies who have come before the committee. Having spent most of his life and career in state government and/or higher education, **Dr. Kustra** has had the opportunity to work in state agencies with state agency directors, and thinks he knows something about recruiting. He thought it fair to say that when it comes to the job of identifying a labor pool and hiring employees in state agencies, almost all the way up to the top of the agency, in most cases other agencies, like to hire employees preferably within their state boundaries. They'll occasionally do a national search, for a director of an important agency, but the governor **Dr. Kustra** worked for had a real thing about finding agency directors in his own state. Higher education, however, is different, especially with faculty and some staff. There is no question that hiring is done from a national labor pool, and when that is done, the result is a very different kind of employee. Higher education employees are faculty of speciality, highly mobile, highly educated and very competitive when it comes to salaries, since they do compete not only in a national labor pool, but then with other regional labor markets. As the committee looks to the east, some of those labor markets are more expensive than Idaho, especially in the mid-west, northeast and in the south. So, it gets very expensive to bring an employee in from far away. The new Dean of BSU's new College of Health Sciences comes from a town outside Atlanta and BSU certainly had to be competitive to hire her. **Dr. Kustra** said that when BSU tried to reimburse her for moving expenses, the state's schedule didn't cover moving expenses for moving her to Idaho. BSU found the very best person nationally, yet BSU had to go through a very difficult and laborious process to get permission for a moving expense. This is imbedded in the Constitution somewhere in the statutes, but to get an applicant's moving expenses paid, one would have to go before the Governor and all the state officials to get an appeal. This is a very interesting concept, but it struck him there were better things to do than that; if the legislature could find a way to change that law, the state would be better off, in **Dr. Kustra**'s opinion.

In the higher education's departments of human resources at Idaho State University, University of Idaho, Lewis and Clark, and Boise State University, when dealing with classified employees, they can individually deal with their recruiting, retaining or dismissals. That can be done more cost efficiently themselves than being tied to a statewide department of human resources. One of the things that higher education asked of state officials in the last few years was to have delegated authority for the universities, except the University of Idaho, because the University of Idaho does not have the same system. Employees of higher education are hired twice, once by the state and the universities do it again; that duplication of effort doesn't make much sense and the human resource directors of the universities have gathered together and come up with a plan as to how that delegated authority could work. The attorneys and others involved in this plan seem to think that all it would take would be the stroke of a pen, and not a change in state law, to accomplish that delegated authority, which would make it much easier for internal departments of human resources to hire and make decisions. This issue is pointed out as one that would make life much simpler and more bearable for Idaho's universities and more cost-effective than anything else. It also is a very laborious process by virtue of having to go to the state, that slows down the ability of universities in bringing employees on board as quickly as they can. Universities are falling behind and they are not as competitive as they need to be; they do fail to compensate at the level necessary to recruit and retain employees. In the last analysis, **Dr. Kustra** came to the committee and was pleased to be asked, but he came because this is about people and fairness; this is about rewarding people for the work they do and having a quality workforce that Idaho is proud of and which, at the end of the day, could be compared to others across the country in a first-class fashion. More than anything else, this is what brought this group together to meet with this committee.

The University of Idaho, Idaho's flagship institution, our land grant institution, is the only institution in Idaho that is a research extensive university, as defined by the Carnegie Foundation. Clearly, all universities have to compete nationally in the national labor pool, but there is no question that the University of Idaho as the land grant institution competes with other land grants across the country when it comes to attracting people. Right now in Idaho, in Moscow, or anywhere else in the state, where the University of Idaho offers educational opportunity, there is no question that they are distressed. If you expect your flagship university to play a vital role in economic recovery, to develop and sustain the economy, along with promoting social progress and civic involvement, then clearly the university needs a workforce that can get that job done. Currently, if you look at the University of Idaho's recruitment issues, there is no question that they are challenged in recruiting for information technology positions, high level finance positions, professional positions in all areas, counselors, child care providers, team cleaning specialists, and many other positions. In retaining people, they have particular challenges in the biological and the agricultural sciences; again, as a land grant, other universities are just waiting to lure these employees away. Recruitment of deans in professional program areas has also been difficult, and has actually resulted in some failed searches. Boise State can relate to that as well; in some cases failed searches have been related to salary issues. The University of Idaho also talks a lot about a problem that affects salary compression, and there is significant salary compression at the University of Idaho in the associate and full professor ranks, as well as at Boise State and the other universities. There is no doubt that the University of Idaho has been doing what BSU has been doing, and the others, in order to fund the meager increases in salary that they were able to afford; they are basically, internally reallocating. They are robbing Peter to pay Paul, and that catches up with you very soon.

At Lewis and Clark State College, **President Dean Thomas** provided **Dr. Kustra** with some information on the history of their salary and wage progress over the last few years; **President Dean Thomas** gave him numbers from 1997 to 2005. In each of those years, it showed the faculty, the administration and the professional and classified positions increased over those years. Over the past 3 years, the employees at Lewis and Clark State College have averaged 1.2% in annual increases, including promotions, merit, COLA, equity adjustments and cost of living. According to the inflation calculator provided by the U.S. Bureau of Labor Statistics' website, a basket of goods costing $100 in 2003 would now cost $108.06. This means that the purchasing power of their employees overall has increased by 7.8% over the last 3 years.

At Idaho State, in the professional staff area, Idaho State has experienced a 10% decrease in relation to market pay rates over the last 3 years and is paying an average salary that is more than 20% behind market data. At Boise State, there are similar problems, and **Dr. Kustra** gave an example of a situation to point out how these salary and wage problems can ripple their way across a university, into the community, into the economy and hit one right back in the face again. Last fall the Governor asked if **Dr. Kustra** would join a group of people and go to Albertsons, to talk about supply chain management; that is how Albertsons can reduce the cost of a good from the Chinese manufacturing operation to the Albertson store shelf here on Sixteenth Street. Albertsons is fighting the value chains, the Wincos and the Wal-Marts of the world. Wal-Mart has become the specialist in getting that supply chain down to the least number of middle people, and down to the absolute bottom dollar price. **Dr. Kustra** took with him the chair of BSU's operations management department, who happened to be a supply chain expert. This second in command at Albertsons lit up when talking to this gentleman; they were on the same wavelength, and it was clear that Albertsons felt they had met with a gentleman with the expertise needed to tackle this issue. That was in November or December, 2004. That gentleman left BSU for greener pastures; his name is **Tom Foster,** and he was making about $83,000 annually; today he is making $110,000. Part of the story is where **Tom Foster** is making that amount of money, and it's not at a public university; he is making that at Brigham Young University. That is an important point because there is a national crisis in public higher education; it's not just about Brigham Young, but also Northwestern University, the University of Chicago, Stanford and others, all fine research universities. While public higher education universities have been underfunded these last few years, these universities' endowments continue somehow to generate the growth and the wealth they need to compete against the private sector, to rob the private sector of significant research expertise. Probably the expert on all of this is the President of the University of Wisconsin, who could tell you how the University of Wisconsin has lost some of its most significant faculty.

Here at BSU, **Dr. Kustra** is experiencing just a little piece of what's going on across the country, and this is a reminder that if we value public higher education as a public good, then we can't allow this enormous shift in resources from the public to the private sector. Why can't we allow this? Why can't we just hand over to private institutions all this great research expertise and turn public higher institutions into something else? The problem **Dr. Kustra** sees is that public higher education has the responsibility, especially in a state like Idaho, where there isn't any real significant private university research expertise. The University of Idaho must provide that, and they can't provide that if their faculty is being hired away by a private institution. It puts the responsibility for those in the public sector to really do a good job of remaining competitive. BSU also brought in someone to take **Tom Foster's** place and he is from Miami in Oxford, Ohio. He is a supply chain expert, and he will be making $90,000 plus a $15,000 summer research package. That job was paying $83,000, and when an institution has to respond to market pressures, the new hire often makes more than the person who left that same position. **Tom Foster** also left due to better health benefits for his family at BYU. Another faculty member just left BSU for a raise from $64,000; in California he is being paid $97,000 as a new faculty member, and BSU denied him tenure and promotion.

Dr. Kustra showed faculty salaries at BSU and Idaho State; they are significantly 13%-20% below faculty salaries across the country. Exit interviews are done, and 8 out of 12 professional staff said they left because of salary; 24 out of 30 classified staff said they exited because of salary. Boise State University was said to have been a great place to work by an employee who just left, but BSU could not compete in salaries; this particular employee warned BSU: "Watch out, when the economy bounces back." In higher education, things are not as bad all over as they are in Idaho. The average increase nationwide has been around 3% - 4%; some have returned to larger increases to make up for those years of recession, but 3% is the average. Idaho was not able to do that this year. BSU has a College of Engineering that is relatively new, as does Idaho State and the University of Idaho, and it would probably come as no surprise that among full professors, if all their salaries were averaged out to compare to benchmarks, they are $23,654 behind. One dean recently resigned, having come to Idaho for quality of life, but was offered a $30,000 increase to go elsewhere; at that point, he could no longer justify his quality of life in Idaho.

That dean will be replaced at a higher level, and by hiring in at a higher level, that takes you back to the compression issue; you're simply leaving in the dust those employees who have been there for 5-10 years. **Dr. Kustra** ended his presentation by stating that if Idaho is going to maintain this highest priority for Idaho's employees, then it would seem to make sense to begin at the outset of the legislative session in establishing that as the number one priority. Whatever this committee decides the appropriate level of earnings should be for state employees, **Dr. Kustra** urged the committee to begin there, rather than go through the process until legislators get to the end of the session, realizing the state is short funds and thereby having to knock down that priority to a lower level. Everyone understands the many challenges of the legislature, and there are lines waiting for the now great surplus that Idaho has; that money is going to be very difficult to make stretch into all areas where it is so badly needed. If state employees can be prioritized at the beginning of the legislative session, agencies, employees and higher education will all be better off for this.

In conclusion, **Dr. Kustra** ended by saying that he came to Idaho after 18 years experience in an elected office because he responded to a call from a President in the 1960's who said: "Ask not what your country can do for you, but ask what you can do for your country." **Dr. Kustra** responded personally to that, and he would not be in Idaho today or have devoted his life and career to government, politics and education, were it not for that particular plea or call. Twenty years later, **Dr. Kustra** voted twice for a President whom he respected for what he did in asserting rights of the free world, turning back the wall of communism, but **Dr. Kustra** was teaching political science in those days, and in those days that President had a little gimmicky saying about "Government is the problem; the private sector is the solution." Everywhere you went, that is all you heard from that administration. **Dr. Kustra** watched during those years as his students changed their emphasis, their priority and their majors from those that might have something to do with a career in public service to those that were going to make a fast buck. By the 1990's the economy was completely out of control and the numbers of students willing to identify a public service career commitment had plummeted. What is going to happen to federal or state government, the so-called bureaucracy that we make fun of so much, when we degrade it and demoralize people working in it by not paying them their fair share of earnings and wages? **Dr. Kustra** believes that the future of this country depends upon many things, one of which is most important, and that is the quality of our workforce from city hall, all the way to a federal department in Washington, D.C. Right here in Idaho, **Dr. Kustra** certainly hoped that the legislators will have an opportunity to respond to the call for justice and fairness in Idaho's state wages and salaries in such a way as to say that government is not the problem; it should be the solution to people's difficulties and problems in providing services. If we get the very best level of employee to come to work in state government because they are paid fairly and equitably, Idaho will indeed be a better place to live.

Senator Andreason thanked Dr. Kustra for representing the institutions of higher education in such a fine way before this committee. **Representative Ringo** asked what **Dr. Kustra** has specifically seen in terms of how attracting and retaining top faculty translates into the legislature's ability to attract top students who then might stay in Idaho to study? **Dr. Kustra**

stated that, without a doubt, especially at the University of Idaho, which does about $100 million of externally sponsored research per year, Idaho State does about $35 million annually, BSU does about $25 million annually, and when it comes to recruiting top-flight undergraduates, and especially graduate students, it’s going to depend on the name and reputation of the faculty member who is doing the research in a particular department. The undergraduate students working today, say at the University of Michigan, thinking about their graduate work in Idaho, are looking at the departments that their faculties tell them are on the move. A department on the move is going to be a department that has the best qualified faculty, highly paid faculty, and ones who are bringing in grants. If you really want to see the University of Idaho excel in the future, clearly as a research institution, it has to be able to attract the faculty that are connected to the National Science Foundation, the Nation Institute of Health and the funding sources that bring in that externally sponsored research. With them, come the graduate students. BSU has a master’s program in raptor studies; it is the only one in the country, and if you look at the faculty BSU has attracted to that, it is very impressive; but, look at the students that faculty attracts. They come from all over the country to get that degree due to the quality of that faculty.

Senator Compton pointed out that the average salary in Idaho is $27,000 and thanked **Dr. Kustra** for exposing to the committee and the legislature this factual information with regard to higher education salaries that are highly competitive, and explaining how that benefits everyone in the state. If educational institutions in Idaho can’t compete as viable institutions, the state is doomed to be just a nice place to live, but that won’t attract or retain employees who can make more money elsewhere. **Senator Compton** asked **Dr. Kustra** to bring this information to the entire legislature, in order for them to better understand the problems and possibly how to solve them. The book "The World is Flat" is a book recommended by **Dr. Kustra**; he stated that the book was a great interpretation, suggesting that all Americans should read this book to see what challenges are before all of us. **Dr. Kustra** promised to keep the legislature informed, and recommended that everyone read at least one chapter of this book entitled "The Quiet Crisis" because that points out the challenges the U.S. is up against with China and India, in particular, in the number of engineers and scientists they are producing, and what a really difficult time the U.S. is having engaging our youth in careers in science and math. There are so many messages in this book for people, way beyond this committee, here in Idaho, K-12 grade students especially, on what needs to be done to engage students.

The next presentation was given by **Cathy Holland-Smith**, Principal Budget & Policy Analyst, Legislative Services Office, who has done special work with the Department of Health & Welfare (DHW); she was invited to share with the committee her work as a budget analyst who worked with JFAC and the process with germane committees and other legislative members to look at personnel cost issues in DHW. DHW spent a great deal of time sharing information to help understand the dynamics of what DHW was dealing with. The source of her information came after shifting with another employee who had spent 17 years as a budget analyst with DHW while she, herself, had spent 11 years as a budget analyst with the Department of Correction; they switched positions. DFM also changed analysts, and there were key management changes at DHW. Based on these assignment changes and new concerns from

JFAC, a budget subcommittee on DHW was appointed in the fall of 2004 and went through a process not previously gone through. There was a program profile process where they looked at all aspects of funding, management of resources within DHW, where their costs had increased over time, what had been funded and hadn't. Primarily the result of that was an awareness that as DHW's increased medical costs, regardless of Medicaid, they were running institutions that were very heavily involved in providing medical services to rapidly increasing populations. DHW has been taking money from personnel because of those pressures and moving money into what is called operating expenditures, and trustee and benefits, to pay for those expenses. The subcommittee came to that conclusion, and they came back to the full committee to make some budget recommendations that were accepted.

The second prompter or discussion was regarding the 2003 legislative audit report in which the legislative auditors found that there were significant error rates in the food stamp program. One of the issues raised was that there had been a reduction in the number of full-time positions (FTP) in eligibility programs based on the budget holdbacks. The approach that DHW took was to create efficiencies by reducing the number of FTP, thinking DHW could actually sustain the eligibility program and, quite frankly, found they could not. There were issues about whether DHW had sufficient personnel to deal with eligibility. Finally, there were extended JFAC hearings during the budget process, so there was a four-day budget hearing process. Many members of the germane committee heard testimony from members of the judiciary, and from agencies working with DHW who received services from or partnered with DHW, and the committee heard how certain programs were working. There was also a house Health & Welfare budget subcommittee, and they met throughout the legislative session, to work with members of JFAC on budget proposals for DHW; they also had extended briefings with the agency. Finally, there was an Office of Performance Evaluations *Child Welfare Caseload Management Study;* this study was done to gain assistance on confirming or verifying information on whether or not there were problems that DHW said they had. This centered around child welfare, those children needing child protection when law enforcement intervenes and when that child needs a foster or permanent home. DHW makes foster care payments and also adoption assistance; there have been significant increases in the population. The agency was bringing a significant funding request to the legislature and the Governor and the Joint Legislative Oversight Committee (JLOC) requested this study. **Ms. Holland-Smith** thought this input was important for this committee to understand, because this level of input had not occurred during the last several years. Budget reductions in Medicaid have caused less attention being paid to some other areas in DHW.

A power point presentation was shown by **Ms. Holland-Smith**, a copy of which is available in the Legislative Services Office, entitled "Personnel Costs Funding, FY 2006, JFAC Approach for DHW." A chart was shown for FY 2005 FTP (full-time positions) authorized. One column showed percentages of FTP's filled and these were broken down organizationally. Higher education has the highest number of FTP's, around 3,700; DHW has close to 3,000, and IDOC has around 1,500. Looking at DHW, the committee can become aware that one employee and one division really does not equal another employee in a different division. This large department, DHW, often gets asked if all the policies are applied equally and does everyone in the agency have opportunity for increases or career advancement. Upon further scrutiny and when DHW speaks, there is a greater awareness that many have different responsibilities and different skill levels; there are psychiatrists at state hospitals, social workers, clerical staff in eligibility, and the workforce really is diverse. When this table is looked at, the committee was asked to look at the fact that the legislature has spent most of its time dealing with personnel issues with DHW around FTP. **Ms. Holland-Smith** suggested that if not obsessive, it could be construed as that, when you look at how this issue has tried to be managed. The legislature has looked at FTP as a way to understand whether the workforce was growing, how much DHW was spending on personnel and whether or not savings were available in personnel, either to use for other responsibilities in DHW or to add additional staff. Back in 2003, 91 FTP were cut and then turned around saying that additional caseworkers were needed in children's mental health, so DHW was given more personnel dollars, but no more FTP, so those had to be gotten from someplace else. Then in 2004 another 77 FTP's were cut, and then another 100 FTP's were cut; why were those FTP's cut? The evidence shows that legislators were frustrated with the amount of personnel cost savings being generated in DHW. So. if you look at personnel reports coming from the State Controller's office and from DHW itself, it was an inaccurate statement. There were savings being generated, but DHW did not have a strategy to analyze the complete picture at the time. So the legislature responded, using a tool the legislature had, to send a message to maximize the use of DHW's personnel dollars; we want DHW to hire the personnel they need. If the legislature sees that DHW has significant numbers of vacant positions, then the legislature concludes that DHW does not need additional positions to do even more work. From DHW's perspective, they concentrated on the percentage of FTP's filled; they focused on DHW's vacancy rate. How much is DHW funded, they asked, at 100%? DHW's perspective was that they are funded at 97%, so they walk into the beginning of each fiscal year thinking they have to keep positions vacant in order to pay for all their personnel costs throughout the year. So, what is true? There is a bit of truth in both, and **Ms. Holland-Smith** brought to the attention of the committee that DHW has a $1.5 million budget, and $1.1 million has to do with Medicaid. Looking at the FTP distribution, almost one-half the workforce really is the Division of Family & Community Services, the child protection workers who provide services and the state hospitals. What is DHW doing when they take this approach, trying to manage FTP's and, is DHW really getting cost containment that DHW thought they were? Most of the costs are being driven by Medicaid, so that actually had very little to do with creating cost containment when it had to do with non-Medicaid agencies.

Ms. Holland-Smith asked the committee to think of the significance of the different scenarios presented earlier in the meeting by **Mr. Freeman**, adding that there are components for agencies to consider. Turnover speaks to productivity. When there is much turnover, productivity is lost. If only FTP is being considered, this is very skewed information and is not accurate. Loss of productivity must be measured in this state and the committee must take this into consideration. Some state agencies hire temporaries but it not typically a productive workforce. When you extend the time a position is vacant, and this is what DHW has done, along with other departments, and money is generated; this is where savings occur and is a one-time savings talked about by **Representative Roberts**. How long a department keeps those positions vacant, becomes the issue; that can be managed quite well if the turnover rate is known and about how long those positions will be kept vacant. Salary savings are substantial, and she did not intend to minimize that. The key is ongoing savings, the difference between the old employee and the new employee. The state is hiring employees at rates that are higher than the salary of the person who left; where is the money coming from? It's obviously coming from either salary savings, previously generated or this idea that they will generate new salary savings because there will be turnover and the vacancy rate will be extended. Those relationships are fairly important, and an astute manager knows that and are operating off that information. Trouble enters when a department simplifies that relationship and not enough is known about how that relates to funding.

Ms. Holland-Smith showed a slide on Family & Children's Services because this is a concept that all legislators have struggled with. FTP was authorized, so within this division, the single largest division in DHW, there were a series of programs shown with a fairly large distribution of FTP. FTP authorized is the number of FTP that the appropriation process of the budget system recognizes per program; that is also where the FTP cap comes from. In this case, this total division for the year 2005, right at the end, had 1,564.25 FTP. The next column showed FTP established; this is important as the source of information that most legislators get when it comes from the state controller's office and on the employee information system, what does that tell you about how many FTP are assigned to DHW. In the past, there were significantly higher numbers of FTP established than authorized, but as legislators got reports about the number of vacant positions, it was based on FTP established, and because there were more than those that were either funded or authorized, they thought they could then go into the budget process and reduce FTP. Regardless, what is established, established is not the key factor to look at, when looking at whether or not something is funded or generated funds; this is one challenge with the vacant position report. It is not as complete as it needs to be; it is one look at the data. The key here is what is the FTP here that is actually filled?

Senator Stegner asked for clarification on FTP authorized; is that the same as FTP funded? **Ms. Holland-Smith** answered that it is not. FTP authorized is FTP assigned to that agency, but agencies can operate with a variance, both positive and negative. The budget allows for a variance of 5%, up or down, so it's not necessarily so that it is a funded FTP. **Senator Stegner** asked if it would be helpful for the committee to have a column showing the actual FTP funded? **Ms. Holland-Smith** answered that the individual analysts in the agencies as they prepare their budget do go through that process and that could be prepared and have that information available. From her perspective in working with DHW and looking at the B-6 forms they fill out, a reconciliation process, DHW is shown as 100% funded. DHW would tell you differently; they would say they are 97% funded because they are including their variables, a temporary workforce they need to hire if they have turnover, and including their overtime and shift differential that our employee information system does not reflect, so that is where DHW's 97% comes from. This is information available for all legislators; we don't just fund a position, we fund an entire agency or an entire program. **Senator Stegner** stated that the legislature feels like

DHW is 100% funding the FTP's and DHW feels they are only funding 97%; are we talking about the FTP's that are authorized or those FTP's that are established and the response was "authorized." **Senator Stegner** asked what FTP established represents; the response was those positions on the employee information system (the automated system that is at the State Controller's Office, and that is basically the paperwork mechanism for which positions are established) ties certain key information about the key individual who is being hired into that position and tracks the costs associated with that position; it is a key tool that both DFM and Legislative Services use to reconcile personnel costs to make sure overspending isn't taking place or to make sure that opportunities aren't coming up short of appropriation, so it's the employee information system.

Senator Kelly asked about positions being vacant for a year, whish then go away, and she asked what that means? **Ms. Holland-Smith** stated that it falls off the employee information system; it doesn't necessarily go away in the appropriation process for those FTP's that are authorized. It falls off or disappears from the employee information system, unless DFM intervenes and allows the agency to reestablish that position. That effort took place with the idea that agencies should not have positions vacant for extended periods of time, many times over several years, and that is when legislators took the position that what was coming out of the employee information system should match the budget system and it did not. Therefore, a process three years ago began, working with DFM and the State Controller's Office to define the workforce differently. The committee was asked to look at the middle column of the FTP-established numbers for Division of Family & Community Services. What the legislature was doing was overstating that column, so even a few years ago that column was 1,800 and that there were 250 vacant positions and when you wanted to cut those positions, the legislature did so without recognizing that there were only 1,564 positions funded, and those 250 positions should not have been cut. That is the key significance of the difference on that chart.

Representative Kemp asked about funded, unfunded, and unfilled positions and her question was: "What happens when this situation occurs within DHW; it's a funded position that goes unfilled, leaving money available in the personnel pot, which can be moved down into operations. What does DHW do with those funded, unfilled position dollars from personnel, and where are they going?" **Ms. Holland-Smith** answered that this is the whole point of her presentation. DHW does several things with it; they use temporary workforce in some cases to address a vacant position for whatever reason, and they have transferred some money into operating to hire temporary agencies to hire individuals to fill that workforce. DHW has used the money for capital outlay, for software development to create systems for efficiency so they can have fewer FTP in the future, and DHW has used it for many different purposes, not all that directly represent or go back to personnel. This is one of the challenges, not only in this agency, but many of the larger agencies.

Senator Andreason asked where DHW is with regard to being told to reduce their authorized positions and then they hire contract people; how are these contract employees identified? **Ms.**

Holland-Smith stated that it does not show up as a personnel cost; it shows up as an operating expenditure and that situation does occur at DHW and an approach has been taken to remedy that. There are contract employees sitting in offices looking like state employees and using state equipment, but they are not FTP and not on the state payroll. **Senator Andreason** stated that an agency could comply with the requirement of the legislature to reduce a number of FTP's and still keep the same number of contract employees. **Ms. Holland-Smith** stated this is true and DHW has done this with the recommendation of the executive branch, the Governor's office, along with the concurrence of the legislature, because it goes back to the idea that there is a very intense focus on FTP and whether or not one new FTP will make that kind of long-term commitment. This does not fairly represent the workforce at DHW because, over time, as DHW's needs increase, those needs are often addressed through a nontraditional personnel system.

Representative Roberts referred to the Hay System annual market adjustment and where positions fit in, and asked if this shouldn't be the avenue that DHW uses to adjust salaries to get things done, as when DHW brings their budget before the legislature, is the policy setter of the state who sets the budget and then provides the service. The way it appears now is that a budget is set, it is massaged and worked after leaving the policy setters' hands, and comes out something different than what the policy setters intended. It seems like the cart is before the horse when it comes to setting the budgets and the amounts for the employees; where does the Hay Plan come in to say that this position is difficult to fill and we need more emphasis here and does DHW ask for an increase in funding? **Ms. Holland-Smith** answered that she has been very concerned about, as well as other members of the agency and the legislature, DHW's entire budget process that DHW uses and their accounting system used to report their actual expenditures to both the state and federal government are aware of this issue and **Ms. Holland-Smith** cannot speak to this issue as targeting certain groups of employees around market issues and around the legislature's policy, but how she sees it translated is that often times DHW would come before the legislature, with the Governor's recommendation, to identify a problem, a key policy showing a shortfall of funds, and DHW would receive new dollars for that purpose. Where the translation or emphasis tended to diminish over time was when DHW actually received the funding and then some other crisis intervened, like a Medicaid shortfall or some other federal mandate, because DHW spends a great deal of time responding to the federal government, having to be accountable for certain programs. So, over time, the resources that were given to DHW for policy emphasis of the legislature became redirected to deal with the shortfall in funding at DHW in other entitlement programs, so the emphasis was lost. The budgeting process at DHW does not seem to represent that as well in DHW as in other agencies because it is fairly complex to find out where resources have been spent. **Representative Roberts** pointed out his belief that this philosophical point needs to be addressed by this committee. Is the committee going to set up a plan that directs policy from a legislative standpoint, or should a budget be set that is really flexible, allowing an agency to say that they need money for one area, when at times, it is not spent in that area, and the money ends up somewhere else. How should the legislature respond to that next year when the original intent never got funded? **Ms. Holland-Smith** identified this issue in the process that DHW went through with the JFAC committee and a lot of emphasis is placed on something in one legislative session and by the time the next session convenes, the emphasis has shifted somewhere else; we have not taken the opportunity as a legislature to follow up and find out what happened. Was there resolution; were there short or long-term solutions, and DHW is faced with that same challenge. DHW gets thrown into a new budget cycle and, what came about in a previous session sometimes gets diminished.

Ms. Holland-Smith returned to her slide presentation, pointing out DHW's 6.6% vacancy rate, and DHW's emphasis is on vacancy rate and the legislative emphasis has been on FTP. She then pointed out several problems faced by JFAC in working with legislative committees regarding personnel and the approach that JFAC took, hoping that would help this committee, in terms of funding. Obviously, from previous presentations made at this meeting, the problem is all about funding. DHW faced increased growth, unfunded growth, in foster care and adoption expenses; DHW had asked for 15 new caseworkers to deal with child protection issues and they wanted additional funding for foster care and adoption assistance. DHW's original solution was to double their vacancy rate to think of themselves as having a 3% unfunded personnel cost. They doubled that and extended the time it takes to hire employees and those savings were transferred into operating costs, and trustee and benefits, and that is DHW's hedge. So, if the Governor doesn't recommend, and if the legislature doesn't give DHW any more money, that is what they do. JFAC's response was that they didn't believe that to be the best approach; there were major concerns. There was a welfare caseload study that says personnel are overworked, the caseloads are more complex, especially with methamphetamines entering the scene, and the caseload study indicated that DHW should not take that strategy. JFAC said they would give DHW enough money to pay for foster care and adoption for the rest of the year, having gone through six months of savings because that was DHW's strategy adopted at the beginning of the year, so DHW did take that money and used it to pay for foster care and adoption assistance and JFAC made DHW hold for 2006 to the extent they could. DHW was given more money for adoption assistance and foster care and then gave DHW new case workers for FY 2006 and said that the first priority is to hire the 30 funded vacant positions DHW already has, so enough money was left in the budget so DHW could change course and attempt to do that. DHW has been more successful at filling those positions, but they have also had more turnover, so ended up with the same situation they were in previously. That is a challenge and there are more issues at DHW than just recruitment; there are pay and retention issues with social workers, but DHW has tried to change course and it will be a long-term challenge when there are many managers in the system who have previously found the solution to be how DHW used to do things.

State hospitals are also a problem; endowment revenues have been shrinking in that hospitals over several years and the legislative approach has been not to restore endowment funds. What happened is that people were being let go and reducing the number of beds filled, so JFAC took a different approach, saying they were going to fund those fund shifts and whatever the amount of loss of endowment funds is, JFAC gave the state hospitals that money, and that was a major shift in policy. DHW is still struggling to hire medical staff in state hospitals, but the legislature pays for an individual, whether in a state hospital or a private facility, and the private facilities cost much more.

Another problem pointed out was in Adult & Children's Mental Health; previous budget cutbacks had cut those FTP's and many services had been shifted to Medicaid, so they weren't a direct service provider. DHW asked for ACT teams, for additional clinicians for assessment and case management for mental health in children, and DHW had a multi-agency budget presentation to ask for much input; judges said they needed more state employees to partner in the mental health drug courts. For the most seriously mentally ill, state employees have really done a good job from DHW partnering in the drug courts, and state employees have been very responsive. The Idaho Children's Council for Mental Health said they needed case managers and additional funding for treatment and both of those issues were addressed, but only about half what was requested. Eligibility workers had been reduced to such an extent that error rates were unacceptable and notices from the federal government that DHW was going to have to improve their system or they would have to pay back federal money, so DHW did request additional FTP. DHW tried to use carryover dollars from the previous year; they hired a temporary workforce to get a jump on those errors, and when they did get the new FTP, it allowed DHW to hire them quickly because they pulled from that temporary workforce and hired those employees. DHW's vacancy rate is now much lower. During the 1990's the technology staff was comprised of contracted employees; DHW came forward and asked for FTP to create savings over time. This was one of DHW's approaches, to hire contract staff to maintain the workforce, despite the FTP caps. This changeover that took place in the 1990's was done with the full understanding of the executive branch at the time, the Governor, and the legislature. How long-term it was expected to be was not known but DHW asked for 41 FTP and JFAC provided 20 and phased them in over the next four quarters. Hopefully, DHW will see that payoff. At the end of the legislative session, DHW's IT Administrator was changed and that individual is looking at the whole system; they have begun to hire and of the 4 FTP's, one individual has been hired. **Ms. Holland-Smith** added that there were a significant number of FTP's appropriated, some were controversial, due to the fact there were members of the legislature who did not think DHW needed FTP's. She then addressed concerns and opportunities such as productivity loss; DHW is not measuring productivity loss at the present time and it appears to be significant, and DHW has an opportunity to do so, and that was addressed by JFAC. DHW, along with DFM, other agencies and the Legislative Services Office stated thatthere is not an understanding between vacancies, turnover and funding, it will not be able to be determined the real opportunities or the shortfalls. Agencies are sometimes surprised at year's end to have a lot of money, but it shouldn't be a surprise; if they know and understand their turnover, if they make planned decisions about vacancies and know their funding, they should be able to estimate what those figures are and that would help place more focus keeping personnel dollars in personnel. With regard to the ongoing strategies that generate personnel costs savings dedicated to meet other agency needs, DHW, like IDOC, has been under tremendous pressure to be self-sufficient, trying to take care of needs not anticipated or not funded. Since 1998, DHW has not had a general inflationary increase except for 2002 and that was 1.5% and then had budget cutbacks. These are the challenges that DHW faces. In addition, capital outlay has been routinely funded and this year JFAC did fund capital outlay for new employees and gave the institution some repair and maintenance money. Finally, strategies to maximize state funds to match federal dollars that seek the greatest return of total dollars is called federal maximization, and it is an approach or strategy that DHW uses to get more money, basically to deal with those issues that DHW feels are unfunded. There has been significant pressure; the federal government, through Medicaid, was giving the state 90% match for IT, and you might have a child protection process that is only getting a 50% match, so there is much pressure for that dollar to go to where it is needed the most. This also speaks to **Representative Robert's** question as to whether or not DHW can spend the time where the focus has been on the part of the legislature. It's an unfair competition when that federal dollar pushes an agency to seek either approaches or strategies to maximize different elements in their budget that were not addressed by the legislature. This has a strong impact. There are many pressures, some of which don't encourage DHW or other agencies to keep personnel dollars in personnel.

Representative Ringo asked for information from surveying the agencies and to what extent agencies are finding it necessary to move personnel dollars into other expenditures such as capital outlay.

Representative Roberts stated that this committee needs data that would show the salary savings in the whole makeup, with all the components or salaries in this state, where are the sources from and what is appropriated through JFAC process, through the budget process, from salary savings, from funds outside, and he thinks this committee needs to look at different agencies and compare that with Controller's Office reports, the actual checks that are written, to find out and track where these funds are coming from. If there is a tremendous shift going on back into salaries, or back into capital, and not hiring employees intended by the legislature to implement policy, then what the committee needs to do is to change the budget and put the money where it is needed, because it is ending up there anyway. This needs to be looked at and this data needs to be gathered for the committee. **Ms. Holland-Smith** responded that, due to closing on year-end numbers, these are being reconciled currently and this information can be gathered for the committee fairly soon. **Senator Andreason** added that human resource directors of some agencies will be asked to attend future meetings and this could also be a part of their presentations.

Mr. Joe Brunson, Deputy Director, Department of Health & Welfare, was introduced and he stated that DHW's Director was in Washington, D.C. doing some work around national mental health policy, as well as meeting with centers for Medicaid and Medicaid services to look at modernization. **Mr. Brunson** addressed what DHW's policy was in funding salaries and DHW believes they ought to pay employees a market equivalent for positions that have equal responsibility in the marketplace. The problem comes in funding; budgets are tight; crises occur in the state; other programs need attention in the state. The Hay System is not the problem, in **Mr. Brunson**'s opinion, it is a workable tool, but it comes with the problem of funding the compensation process to be responsive to market. DHW needs a process to reward outstanding performance on a regular basis, equitable for that performance.

The compensation and budget setting reality at DHW is that **Mr. Brunson** stated that DHW has very little control over that. A plan for the budget is suggested, and there is a single plan for all state agencies relative to compensation; that is then brought to the legislature and they decide how much is appropriated, and when that is given to DHW it is implemented, and that is the law and DHW complies with that. Technically, DHW has very little to say about that particular aspect of the budget setting process relative to compensation. One thing that does happen at DHW is that a problem may occur with a certain pay classification, one of which is nurses. Historically, DHW has done a market evaluation of nursing staff in specific geographic locations around the state. Obviously, nursing positions may require a higher pay reimbursement in Boise than they might in Rupert, for example. DHW studies that marketplace and DHW makes those adjustments; oftentimes those adjustments are made from so-called salary savings that come about due to vacant positions. The problem is that in the year those salary savings occur, DHW has it covered, but that does not get included into DHW's base; it does not get funded for ongoing years, so if those payline adjustments are made, DHW then has to worry about sustainability of those adjustments. DHW does not have a way to include in their budget a request currently for those additional funds. DHW might consider, and this committee might think about, how agencies can come back with a supplemental request for those adjustments in pay, or there may be a piece in the budget around maintenance of effort where an agency could be identified certain payline adjustments for special classes or critical positions that could then be presented to JFAC or other legislative committees to help them understand what DHW has done throughout the year. Nurses are invaluable at DHW; they employ a great number of nurses and their pay is about 4%-6% behind market, depending on location. About 36% turnover takes place among DHW's nurses and that turnover is 40%-60% in some areas. Sixty percent of DHW's nurses leave due to salary issues. Social workers and clinicians in mental health are paid about $3-$5 less than market; about 50% of those leave for salary reasons. There is an overall 17.5% turnover rate at DHW. All the heath care professionals at DHW are underpaid and this presents a problem for DHW.

Does DHW have any personnel funding shortfalls? **Mr. Brunson** stated that DHW's budget analysts say they are 97% funded for personnel; this is because DHW has a certain turnover rate and the legislature understands that, so they fund DHW taking that into account. DHW's salary savings averages about 5% in DHW, so that 3% difference gives DHW a little leeway to fill positions, particularly this year. DHW is not always the most popular agency with the legislature, and **Mr. Brunson** commented that the 2005 session was a very favorable one, from DHW's viewpoint. This was directly a result of having gone through the process of the subcommittee and the interactions in trying to understand one another's positions, DHW has a wonderful opportunity to begin to take a look at how DHW really funds this agency. There was trust and respect across the board, and as a result of that, it is better understood how DHW is funded.

How do personnel dollars move down at DHW, and **Mr. Brunson** admitted that it looks very suspicious and it is a very complicated process. DHW had $1.8 million in salary savings in personnel that DHW moved to trustee and benefits this year and that was DHW's plan. DHW's child welfare social workers, who are very committed to taking care of children and preventing them from being harmed, have had to deal with the methamphetamine epidemic, and more children than ever have had to be taken out of homes. DHW had a much greater demand on the foster care system; only so many dollars were allocated for trustee and benefits. By law, when a child is taken out of a home, DHW has to put that child in a safe place and foster parents are paid for that child by law. DHW did not have the money for that, and it is oftentimes the position DHW is in. DHW's recourse was to give a greater workload to the child welfare workers and positions were kept vacant because the only money DHW had was in personnel, so it was moved down. That was not a choice, but rather a necessity. That is not DHW trying to manipulate the budget or to con legislators; this is simply DHW taking care of kids and paying for foster care to keep the children safe. DHW is just trying to do their job and take care of people.

DHW does have recruitment problems and retention problems due to salaries, but only 60%-70% say salary is the reason for leaving DHW; caseloads at DHW are high.

Senator Andreason asked how serious the methamphetamine problem is? **Mr. Brunson** answered that it is one of the most serious problems in the country today. DHW has had to subsidize adoptions and find permanent placements for many children. The drug problems in homes cause the need for specialized treatments, in both adults and children. Children are exposed either in utero or psychologically and socially after birth, and it has created tremendous problems.

Representative Roberts asked **Mr. Brunson** if DHW could do the same things with a contingency in the budget for DHW rather than moving down salary savings? **Mr. Brunson** answered that there are many ways to deal with this issue; the beauty was that JFAC funded DHW appropriately. For many years, DHW did not get funded adequately in many areas, so the only recourse was for DHW to move down salary savings. JFAC had their reasons for not funding, so that was not a criticism; however, whether a contingency fund or proper funding in the first place or a way to come back for supplementals when absolutely necessary without experiencing the feeling that DHW did something wrong as an agency because costs went up or there were greater demands on a program. Asking for supplementals is construed by some as a failure on the part of an agency in their ability to manage their budget and the discussions with JFAC. **Mr. Brunson** admitted that he did not trust **Ms. Holland-Smith** when she came to help DHW, and in reality she helped to facilitate a wonderful process because the legislators trusted her. What happened from that, it bridged that gap in DHW's relationship to help DHW do better and DHW will continue to do better, but it only comes from that trust, communication and that willingness to stand without judgment. If that occurs, then DHW can respond better to those people DHW serves.

Representative Roberts added that the trust element is very important and pointed out that it goes both ways; as a legislature, if they have the knowledge that DHW needs a certain amount of funding to do one thing and they later find out that the money went for something entirely unrelated, that erodes trust and creates suspicion. If DHW has crises that occur after a budget is set, that is not a predictable event, then the legislature needs to be made aware of that so policy can be changed to respond to that. A contingency within a budget for DHW might be better than DHW's taking salary savings, not filling positions, over-inflating FTP's and causing excessive workloads for current employees is not a healthy situation. Awareness for the policy maker is necessary.

Senator Compton reiterated that good communication is very important between DHW and the legislature, adding that there is probably no other agency the size of DHW that has an unmeasurable task to perform during the year; it is understood how difficult it must be for DHW to accurately forecast its needs when so many crises affect that during the year. Recognition programs have been discussed at these meetings, having a $1,000 cap, and **Senator Compton** asked **Mr. Brunson** about that program, and recognized that DHW is doing more impromptu recognition in regions perhaps with a plaque or something, and this is appreciated by employees when money is not available for monetary compensation. **Mr. Brunson** stated that DHW recently spent $1,284,000 on bonuses for DHW's staff and that came from FY 2004 carryover which was salary savings and gave a $500 bonus to all DHW staff who were eligible; about 2,400 employees of the 3,000 received that raise. Those employees who work part-time were given a portion appropriate to their length of service. In addition DHW twice a year does an employee recognition program and awards are given for excellence, outstanding achievement and customer service. These employees are nominated by their peers or from outside the agency. DHW makes a special effort to commend those employees in their regions and also recognize employees with longevity. **Senator Compton** suggested that DHW let local legislators know when these ceremonies will take place, to invite their participation as well.

Senator Andreason suggested that various human resource directors of state agencies be invited to a future committee meeting, and also invited the committee members to individually make recommendations to **Matt Freeman** as to what should be addressed in the next meeting. **Senator Andreason** invited agencies to also make recommendations to **Matt Freeman** for future agenda items.

Representative Kemp asked the co-chairs for a small segment of time at the end of each meeting for the committee to summarize, as a group, what is heard each day and how that may have an impact on the policy decision the committee makes going forward; that would give the members an understanding, at the end of each meeting, as to the direction for future policy recommendations.

Senator Andreason announced that the next committee meetings would be on Monday, August 29, 2005, at 1:00 p.m. and August 30, 2005, from 9:00 a.m. to 5:00 p.m. The meeting was adjourned at 4:53 p.m.