STATE EMPLOYEE COMPENSATION INTERIM COMMITTEE

JFAC Room, Statehouse, Boise, Idaho
October 25, 2005

CORRECTED MINUTES

(Subject to Approval by the Committee)

The meeting was called to order by Co-chair Representative Bob Schaefer at 9:05 a.m. Other members present included Co-chair Senator John Andreason, Senator Joe Stegner, Senator Dick Compton, Senator Mike Jorgenson, Senator John McGee, Senator Bert Marley, Senator Kate Kelly, Representative Larry Bradford, Representative Ken Roberts, Representative Rich Wills, Representative Anne Pasley-Stuart and Representative Shirley Ringo. Representative Jana Kemp was absent and excused. Staff present from the Legislative Services Office were Matt Freeman, Mike Nugent, Jeff Youtz and Lisa Kaufman.

Other persons present for all or a portion of the meeting included Senator Charles Coiner; Dona VanTrease, Idaho Public Employees Association; Ted Roper, Department of Administration; Mark Dunham, Debi Alvord and Jane Buser, Boise State University; Judy Aitken and Alan Winkle, PERSI; Mary Harker, Idaho Transportation Department; Amanda Brown, Service Employees International Union/Local 687; Ann Heilman and Jay Anderson, Division of Human Resources; Brandon Woolf, Keith Johnson and Patrick Hodges, State Controller's Office; Diana Janse and Pat Page, Department of Health and Welfare; Tim O'Leary, Idaho State Police; Vickie Burnet, Idaho Public Employees Association; Karl Dreher and Dave Tuthill, Department of Water Resources; Kent Kunz, Office of the Governor; Brad Foltman, Division of Financial Management; Greg Hahn, Idaho Statesman; Martha Arcos, Congressman Butch Otter's Office; Rod Leonard, Gary Charland and Don Drum, Department of Correction; and Pam Ahrens, Department of Administration.

Representative Schaefer indicated **Representative Kemp** had submitted written comments which are attached to these minutes as Appendix A and are available at www.legislature.idaho.gov. A copy is also available in the Legislative Services Office.

The first presentation was by **Mary Harker**, Idaho Transportation Department, representing the Human Resource Directors' Panel. **Ms. Harker** said developing a comprehensive compensation philosophy is key to the State's Compensation Plan and is a statement of commitment as to how the State values its employees. She said a consistent pay philosophy gives that State and its employees a frame of reference when making salary decisions. It is intended to provide a foundation for the design and administration of a compensation plan. It defines what you pay for and why and supports subsequent pay strategies. The goal of the philosophy is to attract, retain and motivate employees. For public sector employers a well-rounded philosophy with a bit more focus on benefits and work life is important as well. The philosophy should be written in general terms in order to provide a lasting basis for future compensation design and administration. While plan design and administration may vary over time, the underlying philosophy should not vary.

Ms. Harker said there were three steps in their recommendation. Step 1 was formalizing a compensation philosophy statement. The compensation philosophy statement should include: the purpose of the plan (encourage and reward significant contributions to the success of the State of Idaho), definition of value-added contributions (performance), pay delivery mechanisms (merit adjustments, incentive pay, benefits), compensation action eligibility (performance appraisals, promotions, COLAS etc); and disclaimers (legal requirements and rights reserved by the State as an employer). Step 2 was developing a sound compensation plan with these characteristics: establish internal equity with external competitiveness, reinforce behaviors required for effective delivery of programs and services, performance driven, administratively streamlined, congruent with compensation philosophy. **Ms. Harker** said actions for this step are: deciding what, if any difference should exist in pay structures for executives, classified employees, temporary employees; determining whether the state should set salaries at above or equal to a certain percentage of market for all jobs or whether it will vary depending upon the criticality of the job and its market position; and deciding the extent to which benefits should be a part of the total compensation package. **Ms. Harker** said that step 3 is for agencies to develop salary administration policies and procedures: salary treatment for promotion, reclassification, special assignment; merit increase criteria and limitations, overtime compensation and special pay conditions such as shift pay, geographic pay, and being on call.

Ms. Harker said the panel's compensation components consisted of philosophy, compensation plan and agency salary administration. Under philosophy are the umbrella of values and what to pay for and why. Under the compensation plan were the job evaluation, classification and pay structure. Under agency salary administration are strategic alignment, strategy for merits and other pay increases and internal pay policies and procedures.

Ms. Harker said the panel came up with three alternative State of Idaho compensation philosophy samples. What they recommended was:

C Through effective and progressive government leadership, the State of Idaho will provide cost-efficient and high quality services to the citizens of Idaho. One of the most important means to achieve this mission is through a workforce that is valued, motivated, accessible and accountable. The State seeks to recruit and retain employees with a commitment to public service and a desire to make a difference. The State's compensation and benefits program is designed to maximize return to the taxpayers of Idaho for tax dollars expended. It is critical that the State's personnel program is effective in attracting, retaining and motivating a workforce that is capable of and committed to providing the most competent and efficient service possible to the citizens of Idaho.

C To recognize and reward employee's contributions, the State establishes a total compensation program that delivers competitive pay and benefits:

*maximize return to the taxpayers of Idaho
*motivate the workforce to provide efficient service to citizens of Idaho
*utilize comparable market rates to compete for talent
*maintain the salary to within 3% of market
*ensure employees reach market rates within five years in classification
*ensure that agency budgets reflect the market rates for salary
*utilize a combination of the Hay System and market data to assign pay grades
*utilize a merit increase matrix to ensure employees are rewarded based on performance
*ensure that the State's benefit programs reflect market
*establish internal equity and external competitiveness
*recognize and reward performance excellence through a variety of pay delivery methods
*support the State's ability to attract and retain qualified and productive employees;
*be easily understood and administered
*be compliant with all legal, regulatory, and statutory aspects affecting compensation and benefits.

Senator Stegner asked about the other compensation philosophy samples **Ms. Harker** represented. **Representative Schaefer** said the compensation philosophy just discussed is the one the panel recommended. **Senator Andreason** asked why the panel recommended the option they did. **Ms. Harker** said it speaks to valuing state employees and service to citizens. It goes into specifics about market and competitiveness by using both pay and market data.

Senator Compton said there were a couple of points in the plan that troubled him. He said he is concerned with mandating salaries to reach market rates within five years. There may be years where the revenues make it impossible to achieve this. He would feel more comfortable if this were a goal and not a mandate.

Representative Roberts asked in Sample 2 the differences between motivating and rewarding. **Ms. Harker** said motivation is internal when an employee feels valued and appreciated. She said pay is not the only factor to provide motivation. If the employer provides validation for the work and flexible benefits, motivation usually occurs in employees. **Ms. Harker** said rewarding is paying for performance. This could come in merit salary increases or bonuses. **Representative Roberts** said that, whatever philosophy the committee and ultimately the Legislature adopts, the language should be clear and not ambiguous.

Representative Ringo asked with the philosophy in the recommendation, how important is it to provide cost of living increases. **Ms. Harker** said that if the state tries to move everyone to market then cost of living increases would not be needed. If employees cannot be brought to market then COLAS would be needed. **Representative Ringo** expressed concern that the intent does not translate to commitment. She said the out clause is funding availability.

Senator Stegner asked if the Legislature adopts this philosophy what would have to be amended in existing Idaho Code. **Ms. Harker** said Section 67-5309C, Idaho Code, would need to be revised.

Senator Kelly asked how the recommendation is really any different than the current state personnel system and asked why we are not moving employees to market in the current system. **Ms. Harker** said that the recommendation is more detailed than the current Section 67-5309C, Idaho Code. **Ms. Harker** said the current statute does not have a value plan, purpose and compensation plan. She said there is no mission statement in the current law.

Representative Wills asked who would be responsible for seeing that the compensation plan is carried out. **Ms. Harker** said the Division of Human Resources would be the body to carry out the plan. **Representative Wills** asked if we cannot carry out the current law, how are we going to do any better with a new philosophy. **Ms. Harker** responded the key would be committing to the new philosophy with necessary dollars. She said the policy makers will have to make tough choices to implement this. **Ms. Harker** said if you have a philosophy and actions do not match, then employees will realize the philosophy is a bunch of words.

Senator McGee said he is a member of a the Joint Finance-Appropriations Committee and that everyone needs to be cognizant the employee compensation decisions are not made in a vacuum. There are competing interests competing for dollars. He said this year the Department of Correction is submitting a budget request for a new prison of $180 million. **Senator McGee** said the state may not have the resources to do as much as it would like to for state employees.

Representative Schaefer said if people are hired into state employment, they need to be paid fairly. He said JFAC needs to be aware of that. **Senator McGee** said this is not to say that the compensation philosophy does not have merit and should not be pursued. He said he was trying to make the committee aware of other circumstances that could affect employee compensation. **Representative Pasley-Stuart** said this philosophy of compensation is where the rubber meets the road. She said we need to look at the committee's charge, not the Joint Finance-Appropriations Committee's charge. **Senator McGee** said he was just asking committee members to remember that there are other issues going that may require state dollars and that the State of Idaho cannot deficit spend. He agreed that state employees need better treatment.

Senator Stegner said he was asking this question as a rhetorical question: If the Legislature adopts a salary structure with three percent of market and will bring everyone to market within five years, it is an entitlement and should it be? **Ms. Harker** said if it is worded to say it will happen without contingencies, then it is an entitlement. She said that lack of funding is an out clause. **Ms. Harker** said a possibility would be to have state employee compensation be the first item of budgeting for the Legislature and not the last or next to last. She said state employee compensation or new prisons are all a cost of doing business as a State.

Senator Andreason thanked the personnel panel for all the hard work they have done on this project. He said it will require the will of the Governor, the Legislature and state agencies to make this work. He said the state has been funding the Department of Health and Welfare and the Department of Correction and neglecting state employees. He said the money is there, the state just needs the will to do it.

Senator Compton said a philosophy is important for success in an organization. We need to be competitive to attract good people and then pay them adequately. He said morale of employees of the State of Idaho is rotten. The Governor needs to be accountable for this, as well as the Legislature.

Patrick Hodges from the Office of the State Controller was the next speaker; he discussed the constitutional and statutory authority of the State Board of Examiners and their history. **Mr. Hodges** said some of the duties of the Board include setting per diem and travel reimbursement rates for State employees, issuance of deficiency warrants for hazardous materials cleanup, rejecting increases in state employee salaries, transfers of appropriations and reduction of appropriation amounts.

In response to a question from **Senator Stegner, Mr. Hodges** said with advent of state purchasing or "P" cards, agency rotary expense accounts for giving cash advances for state employee travel are starting to become a thing of the past.

Senator Compton asked why the Board would disallow a state employee pay increase. **Brad Foltman** of the Division of Financial Management said this is a tool and can be used if a budget holdback situation is occurring.

Mr. Hodges continued by saying that the State Board of Examiners consists of the Governor, the Attorney General and the Secretary of State with the State Controller being the ex-officio secretary. **Mr. Hodges** said there is a subcommittee of the Board consisting of Mr. Foltman representing the Governor's Office, David High representing the Office of the Attorney General and Chuck Goodenough representing the Office of the Secretary of State. **Mr. Hodges** said the members of the subcommittee are not voting members of the Board.

Senator Kelly asked about the issue of moving expenses. **Mr. Hodges** said that is within the purview of the Board and they have adjusted moving expense policies for state agencies and institutions over the years.

Matt Freeman of the Legislative Services Office next discussed some legislative proposals the committee had requested at a previous meeting. **Mr. Freeman** discussed changing the personnel laws regarding holiday pay to remove the conflict between employees who work eight hours per day five days a week versus employees who work say four ten hour shifts for their work week. **Mr. Freeman** also discussed a proposal that would increase bonuses from $1,000 to $10,000 and could be used for employees performing above expectations, for retention or for recruitment. **Senator Andreason** said the proposal, as written, had an exception to the $10,000 limit and asked if that would mean there is no limit to the amount of a bonus that could be granted. **Mr. Freeman** said they were trying to craft the legislation to avoid going through the Board of Examiners. **Mr. Freeman** said in extraordinary circumstances that there would be no limit as the proposal was crafted.

Senator Kelly asked how could you award a bonus for recruitment if you need satisfactory performance for six months. **Mr. Freeman** responded that the hiring authority could offer the incentive of the bonus six months after hiring if the employee performed satisfactorily and was still an employee. **Representative Roberts** asked if the state is competitive with market, would the need for the $10,000 bonus diminish. **Mr. Freeman** said if the state got to market yes.

Mr. Freeman next discussed moving expenses and said that the proposal would allow the Division of Human Resources by rule to establish them.

Mr. Freeman discussed the need to amend the statute that fixes long term disability at $3,000 per month.

Mr. Freeman discussed shift differential pay contained in Section 67-5309, Idaho Code, which gives the Administrator of the Division of Human Resources authority to promulgate a rule providing for five percent shift differential pay. **Mr. Freeman** discussed moving the maximum of five percent to twenty-five percent depending upon local market and economic conditions for various jobs and geographic locations and for other reasonable factors affecting recruitment and retention.

Representative Ringo asked how the proposal for bonuses would be used for recruitment and if it would work. **Ms. Harker** said telling a perspective employee "wait six months to get your bonus," will probably not attract the people the state is trying to hire. She said bonuses need to be flexible.

Ms. Ann Heilman, Administrator, Division of Human Resources, discussed various benefit plan alternatives. She indicated that Idaho State Government is losing its ability to compete for employees. She discussed an example of a tiered compensation plan. **Ms. Heilman** said this proposal would have four categories of benefit packages. The four packages were all Fair Labor Standards Act (FLSA) covered employees, employees exempt under the FLSA, executive employees exempt from FLSA and part-time employees. Other issues she discussed were starting health insurance coverage the first of the month after the hire date instead of ninety days after hiring, delaying PERSI participation until three months after hire and adding a surcharge to health insurance premiums for smokers. Ms. Heilman said that the law that passed allowing hourly comp time for executive and professional employees was perhaps ill advised and is costly to the state.

Representative Schaefer asked if **Mr. Winkle** of the Public Employees Retirement System had been consulted about delaying PERSI participation. **Ms. Heilman** said **Mr. Winkle** had been consulted and had been very helpful. **Senator Stegner** asked if there might be some federal tax consequences of delaying membership of PERSI. **Ms. Heilman** said her Deputy Attorney General was looking into that but she did not think there were any federal tax problems with this approach. **Ms. Heilman** said the PERSI approach could save $960,000 in the employer contribution to PERSI that could be utilized for payment of the increased health insurance premiums.

Representative Roberts and **Senator Kelly** asked what costs are involved in allowing an employee to be eligible for health insurance after thirty days instead of ninety days currently? **Pam Ahrens,** Department of Administration, said that the expense to the insurer would be roughly 60 days more of claims to be paid. On the part-time employee issue, **Ms. Heilman** said a possible way to handle this would be to have the state pay a percentage of their health insurance premium (rather than the full premium paid now) based on hours worked and to give the employee notice of this so that they could either purchase full coverage through the state or make other arrangements through their spouse's insurance or a private purchase. Regarding the part-time employees, **Ms. Heilman** did indicate there could be an issue with legislators, as they are deemed part-time because of the three-month session.

Ms. Heilman said another couple of policy options the committee could decide would be to have an audit of the state health insurance program to determine if ineligible persons are participating, and then she asked the question: "Is state provided health insurance a benefit in the
total compensation package, social policy or both?"

Representative Ringo asked if a full-time state employee earning an $80,000 salary has the same insurance as the employee earning $15,000 annually? **Ms. Heilman** said both employees would have the same access to the insurance package regardless of pay. **Representative Ringo** said she is concerned with increasing the ranks of the uninsured particularly dealing with part-time employees. She said she would like to hear from state employees on this subject before the committee makes recommendations. **Ms. Heilman** indicated in the last seven years there has been a 245% increase in health insurance premiums, while CEC has increased by 17% and the market for salaries has increased 31%. She said that the average base salary for a classified state employee is $36,479 with benefits of $19,850 or 54% of salary and for nonclassified state employees the average base salary is $51,217 with benefits being $24,992 or 49% of salary. **Representative Roberts** asked if these figures included any bonuses, and **Ms. Heilman** said they
did not.

Senator Jorgenson asked if reducing or tiering benefits for part-time employees would result in agencies replacing the part-time positions with one-half the number of full-time positions. **Senator Andreason** said when an agency receives an appropriation, the maximum number of FTE's is included, so two half-time positions equal one FTE.

Representative Pasley-Stuart asked about the cost of providing comp time to executive and administrative employees currently. **Representative Pasley-Stuart** questioned whether some of the proposals that **Ms. Heilman** presented would be in compliance with the Fair Labor Standards Act.

The committee recessed for lunch at 12:22 p.m. and reconvened at 1:30 p.m.

After lunch **Senator Andreason** called on **Ms. Heilman** to discuss guidelines and funding options for the cost savings bonus program. **Ms. Heilman** said Idaho Code was changed in 2003 to allow for bonuses to be awarded to employees who made suggestions that saved the state money. Since all bonuses have to be funded from personnel costs, it has been difficult to promote the program when personnel budgets have been limited. **Ms. Heilman** suggested the following changes to this program.

- 1. Establish a Cost Savings Bonus Committee and Coordinators.
- 2. Awards would be set at twenty-five percent of the savings amount or $10,000,
- whichever is less.
- 3. Funding would come from the budget category of operating costs of capital outlay
- where the savings occurred.
- 4. Agencies would have new accounting and budget reporting requirements.
- 5. Agencies would have an incentive to participate.
- 6. In most cases, fifty percent of the savings would return to the state general fund or the
- dedicated fund of the agency.
- 7. The Legislature would determine re-appropriation of most on-going savings

Senator McGee said there has been a frustration of getting this program into Code and then not really being able to use it. He commended **Ms. Heilman** for coming up with this approach.

Senator Compton said he assumes that the Division of Human Resources would own the program. **Ms. Heilman** agreed. **Senator Compton** said a couple of benefits to this program could be improved communication within an agency and savings to the taxpayers.

Senator Kelly asked about the impact on federal funds. If a savings were found in a program that had mostly federal funds, could those funds be used for a bonus? **Ms. Heilman** said it would depend on what the federal grant allowed.

Senator Andreason noted that the state had an effective employee suggestion plan that worked at one time.

Jeff Youtz, Supervisor, Budget and Policy Analysis, Legislative Services Office, discussed the issue of whether there should be a limit on how much money appropriated to agencies for personnel costs can be used to cover operating expenses. **Mr. Youtz** said, by law, state agencies and institutions can transfer, without limit, spending authority from personnel costs to operating expenses or capital outlay. These decisions must be approved and authorized by the Division of Financial Management. **Mr. Youtz** passed out a spreadsheet that summarized unexpended personnel costs which indicate that some agencies are using personnel costs for other priorities or are simply reverting unspent personnel costs.
Mr. Youtz said that the Legislature shares some culpability in that state agencies have been trained to use personnel costs as a reserve for other unfunded needs. He said for eight of the last ten years, the Legislature has not funded an inflationary increase for operating state agency programs. **Mr. Youtz** said if the Legislature places limits on agencies ability to make transfers from personnel costs to other spending priorities, the Legislature should be prepared to directly

address those program expenses that have been subsidized by personnel costs in the past.

Mr. Youtz said giving state agencies more flexibility in their budget through lump sum appropriations is not the answer to employee compensation funding issues. He said many state agencies are not using the spending authority the Legislature is providing for personnel costs as it is. **Mr. Youtz** said the answer is to have a budget system that is accountable and measurable, that is fair and consistent for all agencies and that provides state agencies the resources to do the job assigned to them by law. He said that includes funding a compensation system that includes three basic components:

- Funding a separate component that enables all state employees who are performing their jobs satisfactorily, to keep up with the cost of food, housing and basic family security.
- Funding a separate component that enables our compensation system to respond to changes in the labor market.
- Funding a separate component that rewards outstanding performance.

In response to a question from **Senator Compton** regarding the Idaho Transportation Board asking to use operating money for personnel costs, **Mr. Youtz** said some agencies have larger capital outlay budgets (in the case of ITD) than others do. **Senator Compton** said years ago the state gave the Department of Education lump sum spending authority. He asked how that worked. **Mr. Youtz** said that it worked fine because the CEC was funded that year. In many years CEC is not funded.

Senator McGee said he is frustrated that the unexpended general fund personnel costs are approximately $5,000,000 and we can never seem to fund CEC. **Mr. Youtz** responded that the state has not done a good job funding operating expenditures and capital outlay and agencies have to move the personnel money down.

In response to a question from **Senator McGee, Mr. Freeman** said the $34,000,000 figure is unexpended personnel costs from all funds, not general funds.

Representative Roberts asked why the state has not set up adequate funds to provide for innovative personnel practices like bonuses for cost savings. He said it appears that there is a need for a system that will set budgets on FTEs that will be hired and adequately compensated and asked why such a system cannot be set up. **Senator Andreason** said the problem occurs when the state provides a 1% raise only if there is surplus. **Mr. Youtz** said that the onus is often placed on agencies to generate salary savings to provide sufficient funding for CEC within existing revenues. **Mr. Youtz** agreed with **Representative Roberts** about the need to set budgets that provide adequate funding to agencies for personnel needs. **Representative Roberts** said if the Legislature sets policy there needs to be a prioritization in budgeting. Then the agency can prioritize and eliminate services if funding gets tight.

Senator Marley asked if the Joint Finance-Appropriations Committee is locked into the CEC Committee’s recommendation? **Mr. Youtz** answered: "Yes, if there is a recommendation that is adopted by the full Legislature."

Brad Foltman, Administrator, Division of Financial Management, said the Government of the State of Idaho is very unique. One-size-fits-all does not necessarily work. He said the committee needs to be cognizant that PERSI is a public employee retirement system not a state employee retirement system and there are public employees throughout the state that are stakeholders in that system. Having a part-time legislature makes it tough to project shortfalls in a coming fiscal year when the Legislature adjourns in March or April. He said the Board of Examiners' role is critical in times of budget shortfalls when revenues come in below projections, and when certain adjustments are needed to close out the fiscal year.

Senator Compton asked if **Mr. Foltman** was telling the committee that this subject was too complicated for the committee? **Mr. Foltman** responded: "No, not at all, but agencies should not be faulted for prudent management." **Mr. Foltman** said the Legislature needs to give the executive branch the tools to do the job. Flexibility is the key.

Mr. Don Drum, Administrator, Support Division, Department of Correction spoke next. **Mr. Drum** said some issues facing the Department include aging facilities, being over capacity with inmates and legal challenges as a result of this and recruitment and retention of personnel. **Mr. Drum** said he has seen changes in corrections personnel in the past 15 years. More education and training is a necessity in today's correctional system. He said they have a big problem if they cannot bring their employees to market and surrounding law enforcement entities are paying more for a similar job. **Mr. Drum** said that they are in the process of trying to develop a department merit-based pay plan.

Senator Andreason asked if the Department had made a budget request for items that unexpended personnel costs paid for? **Mr. Drum** said they had included items in their budget request that either had not been approved by the Governor or JFAC. Without being able to move personnel costs down to operating expenditures or capital outlay, the Department would have had a much more difficult time operating.

Karl Dreher, Director, Department of Water Resources, spoke next and requested the committee not recommend limiting moving money down from personnel costs to capital outlay or operating expenses. He said some of the unexpended personnel dollars were used to help the department move from Orchard Street to the new Water Center. He said they had put money for the move in their budget request and it was denied. He said this past year he has used the unexpended personnel costs for temporary merit increases and the rest for capital outlay. **Mr. Dreher** said they are encountering a problem in that some of their engineering and technical positions can make a lot more money with less responsibility elsewhere. He said part of the compensation problem is that the job is not at market and that makes for the difficulty in both retaining employees and hiring replacements. **Mr. Dreher** said this problem is not for all employees of the department but for some with technical skills that are in demand in our current job market such as information technology positions and engineers.

Representative Roberts asked if **Mr. Dreher** would have problem requesting a budget that would include the cost of replacing an individual. **Mr. Dreher** said that he would have no objection to that. **Representative Roberts** asked what changes **Mr. Dreher** would make to the Hay System. **Mr. Dreher** said the system is not at fault, it is just that is has not been fully funded so there is the tendency for a lot of positions to fall further and further behind market.

Senator Compton asked what would get cut if Idaho Department of Water Resources was asked to scale back operations. **Mr. Dreher** said that happens in hold-back situations and during the last hold-back, the department scaled back its enforcement of the Stream Channel Alteration Act because the Corps of Engineers has a similar program. There were some unintended consequences to this as a group found a loophole, obtained the necessary federal permit and the department was powerless to stop their activity.

Mr. Jay Anderson, Division of Human Resources, was the next person to speak. He presented a power-point presentation, a copy of which is available in the Legislative Services Office. He discussed how the current pay schedule is intended to work, pay equity issues when Hay points do not equate to market pay rates, proving greater funding to agencies significantly below market, providing funding for all positions at 90% of market and directing agencies to award pay increases on performance and market basis. **Mr. Anderson** presented a sample merit increase distribution approach between agencies and also presented a sample merit increase matrix within an agency. **Mr. Anderson** indicated that part of the Hay strategy is to separate out positions that are in demand and provide a point factoring for those positions.

Senator Andreason asked why there was an apparent discrepancy in salaries paid engineers that work for the Idaho Transportation Department and those that work for the Department of Water Resources. **Mr. Anderson** said part of this might be based on salary savings that an agency generates, and it might also have to do with the funding mix of the agency be it dedicated, federal or general. He also said that a particular type of engineer that one agency hires may be in more or less demand at a point in time as well and turnover may figure into this particularly if an agency is hiring relatively inexperienced personnel for those positions.

Mr. Anderson said that a budget mechanism needs to deliver more money to agencies that are below market. In other words, the more an agency is below market, the more money they should receive to bring themselves closer to market. **Mr. Anderson** said the state really has not adopted
a true pay for performance system because of lack of compensation increases. **Senator Andreason** asked if this type of mechanism should be provided to each agency. **Mr. Anderson** said : "Yes, so that the concept of the merit increase matrix could be implemented."
Senator Compton asked how **Mr. Anderson** arrived at the figure that three percent of an agency's employees are doing unacceptable work. **Mr. Anderson** said he arrived at that to prevent managers from having the halo effect that all of their employees are doing acceptable work. **Senator Compton** said that his experience in private industry is that the curve is more bell shaped in rewarding the superior performers and getting rid of the sub-par performers.

Senator Compton said it appears from the matrix with only 3% doing sub-par work and 20%

providing exemplary performance, that we are unable to weed out the poor performers and cannot keep the outstanding performers because they are off to greener economic pastures.

Representative Roberts said that the Hay Plan works if funded properly, and it does not need to be thrown out. He asked what it would cost to bring state employees to ninety percent of market. Mr. Anderson said it would cost approximately $42 million to bring the average to market, and in reality may not cost that much.

Senator Andreason announced the next meeting will be Monday, November 28, 2005 at 9:00 a.m. in Boise. He said if at all possible, this will be the committee's last meeting.

The committee adjourned at 4:50 p.m

Attachment: Appendix A - Written comments by Representative Jana Kemp