

MINUTES

**JOINT HOUSE AND SENATE
CHANGE IN EMPLOYEE COMPENSATION (CEC)
COMMITTEE**

DATE: January 5, 2007

TIME: 8:30 A.M.

PLACE: State Capitol Building, Room 420 (Gold Room)

MEMBERS PRESENT: Co-Chairman Andreason, Co-Chairman Schaefer; Senators Coiner, McGee, Fulcher, Hammond and Kelly; Representatives Bradford, Roberts, Bolz, McGeachin and Ringo

MEMBERS ABSENT/ EXCUSED: Representative Ann Pasley-Stuart

GUESTS: See attached Sign-In Sheet.

CONVENED: **Co-Chairman Andreason** called the meeting to order at 8:31 a.m.

PRESENTATIONS: **Co-Chairman Andreason** recognized **Amy Castro**, Senior Budget and Policy Analyst, Legislative Services Office, to open the meeting with her presentation to the Committee.

Legislative Services **Ms. Castro** provided a brief overview of the impacts of S1363 and H844 which were passed into law in 2006. She provided a review of H844 and the distribution methodology, positions targeted, agency funding, targeted CEC funding and the effects on employee turnover. **Ms. Castro** then reviewed the State Compensation Policy (Section 67-5309A(1), Idaho Code) per S1363, and compensation standards, budgetary conditions, and highlighted the specific provisions of S1363. **Ms. Castro** closed her presentation with a review of the specific discussion topics for the Committee and the four areas to be specifically included in the CEC recommendation. (See Attachment 1.)

Co-Chairman Andreason then recognized **Jay Anderson**, Manager of Compensation, Division of Human Resources, to report on the effects of the new pay structure, assignment of new pay grades, and CEC report review. **Mr. Anderson** provided a handout to Committee members (see Attachment 2).

Division of Human Resources **Mr. Anderson** explained the challenges faced in implementing the new pay structure as required by the 2006 legislation. He advised that the internal pay structure had not been re-evaluated since 2002 and was outdated and difficult to rationalize. Numerous approaches to structure movement were reviewed, with the final grade structure adopted July 1, 2006, being a combination of Hay Point value and market rate. He said there were about ten positions that were reduced in salary range when the new pay structure formula was applied, and referred to the "Market

Premium Sample” chart in the handout to explain the placement of those positions. **Mr. Anderson** advised that no salaries were reduced, but staff is still challenged with addressing this situation.

Mr. Anderson said that state compensation is still only 95% of market, as there is still an employee benefit study pending that will provide the value of employee benefits to arrive at a total compensation value. Based upon preliminary information obtained from surrounding states, he feels that Idaho’s benefit package is about 3% richer than that provided in those other states.

Discussion followed regarding the movement of all employees to mid-point, differences between agencies in the implementation of that process, inclusion of benefits in the salary computation, and employee turnover rates. Questions were posed by the Committee members regarding plans to address the problem of recruitment and retention in high-turnover positions, and the cost of outsourcing state jobs by contract when outside contractors require higher wages than that currently provided to state employees.

Mr. Anderson stated that state employee salaries are currently 15.6% behind market. As the market is always moving 2.1% to 2.7% annually, Idaho continues to fall behind market. Once the benefit data is determined and incorporated into the total compensation package, we will be closer to market. He believes that the merit matrix based upon performance is a good system, but adequate funding must be provided to the agencies. He suggested that the Legislature have a plan to address spending priorities and consistent funding for state employee compensation. Last year the state was approximately 16.5% below market and we are now 15.6% behind market; that means we have moved .9% closer to market. At this rate, the state will reach market level in approximately 15 years. He encouraged the Legislature to compare state agencies, and direct more of the salary funding to those state agencies with low compa-ratios.

Mr. Anderson closed his portion of the Division of Human Resources presentation by encouraging the recognition of state employees who perform well and “make a difference and have an impact” to overcome the viewpoint that public service is substandard to the private sector. The Division of Human Resources plans to collect additional compensation data from cities and counties and “get a better idea of the perceived value of benefits” in order to arrive at a total compensation package.

Bob Oberholzer, HR Services Integration Manager for the Division of Human Resources, then addressed the Committee regarding statewide human resources policies, workforce management, and a comparison of classified and non-classified employment.

Mr. Oberholzer announced that the Division of Human Resources has completed temporary rules to implement the provisions of S1363 and H844. These rules will be presented for legislative approval and then re-issued to take into consideration any issues presented by the legislature.

With the “baby boom generation” facing retirement within the next few years, workforce management is of primary importance to the State of Idaho. **Mr. Oberholzer** discussed workforce analysis tools, planning tools, and training tools available to state agencies, and the CEC report and supplement (*see Attachment 3*). Each agency is required to provide the Division of Financial Management with annual agency strategic plan updates, and the annual budget also identifies immediate agency needs. A retirement eligibility report is also available by agency.

The Division of Human Resources provides a workforce planning guide for agency use on their website, and webinars and audio conferences are available on workforce planning. The Certified Public Manager (CPM) program identifies and trains future state agency leaders. This program was established in 2000 and has graduated 190 candidates. An important aspect of recruiting and retaining a talented workforce is the competitive posture the state can provide. The standards set by the Legislature in total compensation defines the state’s stance on providing a competitive wage and benefit package.

With regard to management responsibilities for classified employees verses non-classified employees, **Mr. Oberholzer** advised that Idaho Code specifies the positions that are non-classified and states that non-classified employees will be treated similarly with classified employees in regard to pay and benefits. Rules of the Idaho Personnel Commission and DHR pertain only to classified employees. There are approximately 13,000 classified, and almost 7,000 non-classified employees.

**Department of
Administration**

Co-Chairman Andreason introduced **Keith Johnson**, Director of the Department of Administration, to present an overview of state employee benefits. Copies of his presentation were handed out to Committee members (*see Attachment 4*).

Mr. Johnson discussed an over view of employee benefits, current market conditions, employee and retiree enrollment and claim costs, a comparison of FY 2006 costs versus trend, a review of FY 2007 premium plan, and the FY 2008 budget request.

Medical and dental insurance is paid by both the employer and employee; basic life and disability insurance is paid by the employer; and supplemental life, flex spending accounts, and long term care are employee paid programs. Essentially, the state pays 80% of the total premium costs for health coverage, and that percentage has not changed appreciably in the last few years. Current market conditions indicate a “trend” of 11% increase for the FY 2008 budget. Factors contributing to this increase include utilization of benefits by those covered and a rise in the cost of health care services. Total enrollment (employees, retirees and dependents) in the state’s health plan, as of November 30, 2006, is 47,562. The state’s contribution for health related benefits has increased from \$2,964 in 1998 to \$7,125 in 2006 for each employee. **Mr. Johnson** noted that there was no increase in appropriations from FY 2006 to FY 2007, as the premium increase was covered by fund reserves.

The state has a unique financing arrangement in their benefit contracts

which limits the risk for both the state and the carrier. Essentially, if the plan costs are less than the premium paid to the carrier, then the state is reimbursed the surplus; however, if the total plan costs exceed the premium paid, then the insurance carrier must incur this cost. The surplus funds then go back into the reserves for the health care program.

Rick Thompson, Administrator, Division of Insurance and Internal Support, addressed the reserve funding and how the funds are utilized.

Mr. Thompson also addressed questions from **Senator Coiner** with regard to the PPO plan and lack of providers in some areas of Idaho. **Mr. Thompson** advised that the decision to participate in the PPO is entirely up to the physicians; and, there are certain areas in the state where the physicians do not choose to participate in the PPO.

Discussion followed regarding the increase in premium rates, contributing factors to this increased rate, and projected rates of increase that may be recognized in the future. Mental health parity was also discussed.

Mr. Johnson advised that for FY 2008, life and disability premiums are expected to remain the same, medical premiums are expected to increase 5% and dental premiums 2.3% for a total increase of \$350 per FTE. Per capita medical costs are lowest for those under age 55, but increase significantly after age 55. Older employees and their spouses appear to be the greater users of medical care. Employee out of pocket expenses are an average of \$192.73 per month, while the state's contribution is \$576.67 per month.

Mr. Johnson discussed comparisons of employer hourly insurance costs and employee premiums using statistics provided by the Bureau of Labor. The average hourly insurance cost of all employers in the state is \$2.22, while the average hourly insurance cost for state and local employers is \$4.18; the State of Idaho's average hourly cost is \$3.62. The Kaiser Family Foundation survey illustrated employee premiums for state employees is \$23 for single coverage and \$80 for family coverage, which is significantly under the overall state employee premiums of \$76 single and \$297 family.

In response to questions from the Committee, **Rick Thompson** clarified that the premium comparison data does not reflect the higher plan structure, benefit design, and the premium. This is just a comparison of premium costs only. Plan designs and deductible amounts among private sector employers vary widely, as well as the number of employees per employer, and this information is not included in the Bureau of Labor premium statistic comparisons.

Mr. Johnson stated that Section 67-5761, Idaho Code, stipulates that a medical plan be available to retirees that is comparable to the active employee plan, and that any increased cost for this plan is to be shared equally between the state and the active employees. Currently, that amounts to a subsidy of \$16.00 per full-time position per month, which is shared equally between the state and active employees. In total, the retirees cover approximately 75% of the true premium cost of their insurance program, with the remainder subsidized by the state and active employees. The subsidy is about \$5 million annually.

ADJOURNMENT: At 11:43 a.m. **Co-Chairman Andreason** announced that the meeting would adjourn for lunch and re-convene 15 minutes after completion of the Governor's Inauguration Ceremony.

CONVENED: The meeting was re-convened by **Co-Chairman Andreason** at 1:34 p.m.

PRESENTATIONS: **Co-Chairman Andreason** introduced **Allan Winkle**, Executive Director of the Public Employee Retirement System of Idaho (PERSI), to address the Committee.

Public Employee Retirement System (PERSI)

Mr. Winkle provided copies of a slide presentation to the Committee (see *Attachment 5*) and introduced **Don Drum**, Deputy Director for PERSI. **Mr. Winkle** explained that the PERSI program is a defined benefit plan. The Legislature is the plan sponsor for PERSI, while PERSI is the plan administrator (sets contributions rates, performs actuarial and audit work, etc.) and the employees are the beneficiaries of the PERSI program.

Mr. Winkle referred to page 2 of the handout and the graphs depicting the employer and employee demographics. There are 689 "employer units" currently participating in PERSI with \$2,343,500,000 in covered salaries and 64,762 active members paying into PERSI. State and school employees comprise the majority of PERSI participation. In comparison to the demographic of private plans, **Mr. Winkle** said that public plans tend to be about ten years older. The average years of service per member is 10.4 years.

Membership for retired members is up by about 4% from last year. There are 28,438 retired members at an average age of 72.1 years old. Average retirement age is 60.8 for teachers and 62.8 for general members, with an average of 17.7 years of service. The annual payroll for retirees is \$381,677,000.

Mr. Winkle referred to the historical contribution rates on page 3 of the handout. He explained amortization and funding ratios, stating that amortization is a "forward looking measure" and pre-funding is a "point in time measure." For this year PERSI is 94.1% funded and would be fully funded in 12.8 years.

Mr. Winkle discussed the economic downturn and negative investment returns from 2001 to 2003 which resulted in an increase in contribution rates beginning in 2004. Only one rate increase was actually implemented, due to improved funding from investments and contributions. PERSI continues to monitor this closely.

Assets for the PERSI Choice Plan 401K are up by 26% in 2006; member contributions are up by almost 23%; the average account balance is up by 28%; and rollovers into the plan are up by 41% and rollovers out of the account are down by 43%. This program offers members multifaceted flexibility in their retirement program.

Total fund performance among comparable public funds shows that PERSI is doing very well, and they have placed in the first percentile during the last quarter, and the fourth percentile for the last year.

Changes in actuarial assumptions include “generational mortality” and the fact that successive generations are living longer. New mortality assumptions recognize this in the base funding rather than annual gains and losses. Also, to present a more conservative view of future funding, no recognition of future rate increases was incorporated into the FY06 actuarial valuation. These are “healthy” changes in terms of determining where the funding needs to be. Expected funding for 2006 was anticipated to be 91.2% with an amortization of 20.8 years; however, investment gains were more than \$380,000,000 higher than anticipated which resulted in positive funding of \$400,000,000 dollars better than expected, bringing total funding to 95% with an amortization of 12.8 years.

Mr. Winkle stated that PERSI retirees receive a mandatory annual cost of living increase (COLA) of one percent, provided that the consumer price index (CPI) is greater than one percent. If the CPI is greater than one percent, then the cost of living increase is discretionary above the 1% to the lesser of the CPI or 6%. This year the CPI was 3.8% and a discretionary 2.8% cost of living increase was approved by the Board.

The unused sick leave program allows employees to use one-half the value of their sick leave, up to 600 hours, to pay for insurance premiums on the employer medical plan or Medicate supplement at the time they retire.

**PUBLIC
TESTIMONY:**

At 2:33 p.m. **Co-Chairman Andreason** announced that the meeting would recess for five minutes, after which the Committee would hear public testimony regarding compensation, benefits, and retention and recruitment issues. The meeting was called to order again at 2:43 p.m.

Tim O’Leary, Human Resources Officer for Idaho State Police, addressed the Committee on behalf of the Joint Interim Committee’s Human Resources Task Force Members. **Mr. O’Leary** discussed the recent incident involving State Police Officer Chris Glenn, who was critically injured while performing his duties and remains paralyzed. He discussed the high expectations placed upon the state employees and the shrinking pool of qualified candidates. As long as the employees see actions taken by the Legislature to help improve their situation, employees are willing to stay on the job, but the plans must be implemented on a regular basis. The 10-year plan to bring state employees to market rate “is an entire career and may be too long.” Mr. O’Leary would like to see better progress in this area.

Bill London and **Matt O’Connell** spoke jointly to represent the Idaho Conservation Officer’s Association (ICOA). (*Their testimony is included with these minutes as Attachment 6.*) Of the 76 Senior Conservation Officers, only three (4%) are at or above the policy pay line. They requested that the CEC Committee recommend that non-general fund agencies be given the same direction as general fund agencies with regard to employee salary increases and funding distributions.

Jared Everett addressed the Committee as an employee at Boise State University (*his testimony is included with these minutes as Attachment 7*). **Mr. Everett** stated that as policy makers, the Legislature plays a critical role in the sustainability of the Idaho economy and the related quality of

life enjoyed by the citizens. He asked the Committee to support the recommendation for a 5.8% salary increase, consider the 85.5% compa-ratio for BSU for any potential equity adjustment, and to support the removal of the cap for applying the value of unused sick leave for retiree health insurance premiums.

David Sanders, President of the Faculty Senate at BSU, stated that a review of compensation data by rank and discipline obtained from 13 comparable institutions, found that BSU employees are 29% below their peers in compensation. He said that the 5.8% annual increase, which would bring them to the level of their peers within a ten year period, would be sufficient to keep people in their jobs. They have lost nursing faculty to higher salaried positions within the nursing profession. **Mr. Sanders** added that while he is able to quantify the faculty they lose, he is not able to quantify the faculty that they are unable to hire because of BSU's inability to provide a competitive compensation package to potential employees. He provided a handout (*see Attachment 8*) which indicates that 12.1% of BSU classified employees must work a second job to make ends meet and included several anonymous employee responses to the CEC Committee.

Vicki Patterson spoke to the Committee on behalf of the Idaho Public Employees Association (IPEA). She provided a handout delineating employee concerns that had been presented to the IPEA (*see Attachment 9*) and encouraged the Committee to support the 5.8% salary increase, remove the cap on sick leave, work toward improving employee morale, and to "take care of the people that take care of you."

Audry Spence spoke on behalf of the Idaho Department of Corrections (IDOC) and provided a handout to the Committee that explained the benefit to the state provided by IDOC programs to inmates (*see Attachment 10*). She addressed the issues faced by the instructors and management staff.

Gail Cashman, Director of Education for the Idaho Department of Corrections (IDOC), discussed the state's investment funding for offender education and provided a handout to the Committee (*see Attachment 11*).

Ms. Cashman discussed the difficulty of hiring new teachers, because funding is only available to pay the base salary. She said that Idaho reaps a huge return on their investment in offender education, and she encouraged the CEC Committee to increase their investment in the employees that provide the education to these offenders.

Dr. Richard Wilson, Associate State Librarian with the Commission for Libraries, addressed the Committee. He has been a state employee for over 30 years and he is a past president of the State Human Resources Association. **Dr. Wilson** said that the gubernatorial direction to the Legislature for many years has been to run government like a business or corporation, and the legislation that guides our current personnel practices is based in the western business tradition. The paradox facing the public administrators is how to run an organization that is not a business, like a business. He stated that we are attempting to apply fixes to a broken system that works just well enough to keep us focused on trying to fix the system. It does not attract the "best and brightest" young

people into careers in public service, it does not pay for performance, and it is not aligned with current or future trends in our larger world. He suggested that “we need to begin to ask different questions that will hopefully lead us to new solutions.”

For example, the National Research Council studied the federal civil service system and concluded that there is no compelling evidence that one appraisal format is better than another; yet we persist in spending time to review our appraisal formats. Pay for performance models predict that employee motivation is enhanced and the level of the desired performance is increased when (1) employees understand performance goals, (2) they view them as attainable using their skills and abilities within the restrictions of the organization, (3) employees see a clear connection between performance and pay increases that are consistently communicated and followed by the organization, and (4) the pay increases are meaningful to the employee.

Most state employees do not see a link between their performance and their pay. Funding for salary increases is inconsistent for the following reasons: The economic conditions must generate sufficient tax revenues; the Legislature and Governor must agree on appropriations of funds; and the employee’s supervisor must say that the merit was earned during the current evaluation period. He stated that in his many years of employment with the state, there were years when he had outstanding performance evaluations, but no funding was available for salary increases; he “did not receive an IOU for a salary increase” and this performance did not carry over into the following years when funding was provided for a salary increase.

The DHR report has shown that state employees are behind labor market rate in their salaries. The market rate philosophy collapses when consistent funding is not available, and the promise to make up this difference as funds become available based upon meritorious service is highly unlikely and not believable for most state employees. Unlike a private sector organization, the state does not have a profitable bottom line and cannot raise additional revenue through expanding the business.

The conditions for state government to attract and retain employees are changing with global competition. We have created a working environment where managers are frustrated in their ability to make personnel decisions, employees are distrustful of the performance appraisal and compensation systems, and elected officials are faced every year with the demand to decrease revenues (taxes) to the system and to increase employee wages to meet market conditions. **Dr. Wilson** concluded his presentation by suggesting that “maybe it is time to think about a 21st century model for state employment; one that begins with ‘us’ existing to serve our citizens, rather than ‘us’ being a business.”

Amy Castro announced that the next meeting of the Joint CEC Committee is scheduled for January 9, 2007 in the JFAC Conference room at 4:15 p.m. She will be available to provide assistance to the Committee members regarding use of the CEC Calculator and to help them with drafting their motions for presentation to the Committee.

ADOURNMENT: **Co-Chairman Andreason** adjourned the meeting at 4:10 p.m.

Senator John Andreason
Co-Chairman

Representative Robert Schaefer
Co-Chairman

Olga Coply
Secretary

NOTE: Any sign-in sheets, guests lists, and/or testimony, booklets, charts and graphs, will be retained in the Committee Secretary's Office until the end of session, then will be on file with the minutes in the Legislative Services Library (Basement E).