MINUTES

(Subject to approval by the committee)

CHANGE IN EMPLOYEE COMPENSATION (CEC) COMMITTEE

February 15, 2008
Capitol Annex, JFAC Room, 3rd Floor, Boise, Idaho

The meeting was called to order at 8:30 a.m. by Co-chairman Senator John Andreason. Other committee members in attendance were Co-chairman Representative Bob Schaefer, Senators Chuck Coiner, John McGee, Russ Fulcher, Jim Hammond and Kate Kelly, and Representatives Larry Bradford, Ken Roberts, Darrell Bolz, Janice McGeachin and Anne Pasley-Stuart. Legislative Services Office staff present were Amy Castro, Cathy Holland-Smith and Charmi Arregui.

There were other attendees at this meeting, some of whom were viewing this meeting in viewing rooms within the Capitol Annex. Sign-in sheets of attendees present in the JFAC Room are available in the Legislative Services Office.

Senator Andreason asked for a motion to approve the minutes of the January 4, 2008 meeting. **Representative Bolz moved that the minutes be approved, seconded by Senator Coiner, and the motion passed unanimously by voice vote.**

Senator Andreason stated that the CEC Committee was here to talk about revenues and possible motions that represent the CEC's decision on this year's compensation for state employees, emphasizing that in the past few days, the committee had received disturbing information on revenues, inviting **Senator Dean Cameron** to brief the committee on what that revenue picture looks like.

Senator Cameron expressed his appreciation as the Co-chairman of the Joint Finance Appropriations Committee, along with **Representative Bell,** for the opportunity to address this CEC Committee, adding that the opportunity to share budget information was crucial to their ability to set budgets. **Senator Cameron** said that over the last several months as revenues were monitored, some disturbing trends have been seen in Idaho's overall revenue, now seeing the fourth month of downturn in sales tax revenues, the third month of declining corporate income tax, and the second month of decline in individual income tax. Significantly, January's numbers reflect a total reduction of about $39 million, a net reduction of $36 million, pointing out that January is normally a fairly good month. Most disturbing to him personally are the sales tax numbers, pointing out that during the extremely difficult years 2001-2003, sales tax revenues never dipped, even though flat at times, remaining at projection. This gave him great pause and concern as to what is going on in our current economy, advising that everyone needs to remain cautious and prudent. It would not be wise, in his opinion, to establish budgets which cannot be sustained, or to put our Governor in a position to issue pullbacks, which could be very difficult and across-the-board, causing much more harm. **Senator Cameron** advised setting budgets at a cautious level, pointing out that if the economy recovers, then adjustments could be made in the future, but that the consequences of setting budgets too high could be very serious. He said that the Governor had issued a revised revenue projection; his original overall projection had been 3.54% for 2007-2008, and 3.42% for 2008-2009; those numbers have now been revised to 1.76% for 2008, and 2.79% for 2009, reflecting a significant reduction. **Senator Cameron** said that what is not commonly understood is that January's revenues not only affect 2008, but dramatically affect 2009's budget, emphasizing that this was not simply a loss of revenue in 2008. He said there is ongoing discussion with the Governor's office on how this will affect budgets and where revenue losses took place, some in one-time money, but greater concern is for losses in ongoing money. **Senator Cameron** reported to this committee that at this time, in his opinion, a 5% CEC cannot fit into the current revenue stream, adding that in order to give a 4% CEC, they would not be able to do the same for teachers, and would have to essentially cut every enhancement request that the Governor has approved. He did not think that would be prudent budgeting, again urging caution. **Senator Andreason** asked for clarification regarding a possible 4% salary increase to state employees and about teacher salaries; **Senator Cameron** reiterated that in the models he has seen, with a 4% CEC for state employees and a 2.4% for teachers, he did not think even these percentages could work.

Senator Coiner commented about past years when holdbacks had occurred and he asked for more information on how holdbacks related to state employees, possible effects, and a possible forecast if the state finds itself in this situation again. **Senator Cameron** answered that he had been around during holdbacks with **Governor Batt** and **Governor Kempthorne** and said that there are multiple ways to issue holdbacks, some being across-the-board, some more in a precision-type approach, and he wasn't sure which he thought were worse. He said both were very difficult; precision holdbacks helped entities such as public schools, and possibly Health and Welfare, but in order to make their holdbacks nonexistent or minimal, others then have to pay a much heavier price. He said that across-the-board holdbacks certainly affect certain entities, but they minimize the effect upon every agency. The effect upon the state employee, in his opinion, could be felt in the following ways: every state employee is charged with doing their job, and they could possibly be asked to do even more with less. Some employees might be asked to work Fridays without pay, and there have been situations where employees were let go, with remaining employees left to pick up that workload difference, all of which could be the negative effects of holdbacks, making it much more difficult for everyone.

Senator Andreason recalled that the worst case scenario he remembered was under **Governor Evans** when state employees were given a half-day's pay (for a full day's work) during the months of July and August, adding that the effects were devastating.

Ms. Amy Castro, Senior Budget & Policy Analyst, Legislative Services Office, addressed the committee on ways to approach a possible salary increase. **Ms. Castro** handed out the statutory requirement that must be included in the committee's CEC recommendation as follows:

CEC Recommendation Inclusions - 67-5309C

(a) A recommendation for market related changes necessary to address system wide structure adjustments to stay competitive with relevant labor markets. Such recommendations may include a market related payline adjustment for all eligible employees, as well as the structure, to avoid compression in the salary system.

(b) A recommendation for market related changes necessary to address specific occupational inequities.

(c) A recommendation for a merit increase component.

(d) A recommendation for any changes to the employee benefit package, including any adjustments to the overall design of the benefit package and/or employee contributions.

Ms. Castro then passed out a draft Concurrent Resolution, and CEC Draft Resolution Effects, copies of which are attached to these minutes, and portions of which appear below in italics. **Ms. Castro** read through the Concurrent Resolution, having read Item #2 on Page 1 which read: *"The Change in Employee Compensation Committee recommends no adjustments be made to the current payline or compensation structure."*

Representative Pasley-Stuart asked why this motion includes no adjustment to the current payline and the compensation structure when we know that we are dramatically below market. **Ms. Castro** answered that the committee could modify this motion any way the committee chooses, but gave the following reason for why this was drawn up this way. She said that **Mr. Neville Kenning** testified at the CEC meeting on January 4, 2008, that the pay structure required a $6 million funding to move it to that pay structure, and that they hadn't received formally any adjustments to that pay structure at the time of this meeting. That $6 million cost could eat into any CEC on which the committee decides or an additional $6 million would have to be found. **Ms. Pasley-Stuart** asked if that does not take out the competitiveness of the state's pay structure in relationship to the marketplace. **Ms. Castro** answered that essentially any CEC percentage decided upon by the committee will move the pay structure somewhat. She said that right now the payline is not competitive; if you move the payline out without funding, state agencies would have to use part of their CEC percentage to bring people up to the minimum. This cut into possible raises for other employees and their CEC percentage, that being the issue moving the payline without funding it. **Ms. Pasley-Stuart** said she could appreciate that there would be a salary compression issue but thought that the state is still hiring employees below the minimums which, to her, seems to be a very tough situation. **Ms. Castro** stated that state government is not hiring people below their minimum pay structure, adding that they are not statutorily, or by rule, allowed to do so. She said that the state is hiring below market in the market category and that the state's midpoint is intended to be at market, believing that to be statutorily, or by rule, allowed, believing that to be what **Representative Pasley-Stuart** was referring to.

Senator Andreason asked if **Representative Pasley-Stuart** was referring to Item #1 on Page 1 which reads: *"It is the policy of the State of Idaho to provide a total compensation system that attracts, retains and recognizes state employees for their valuable service. The foundation of this system is to pay competitive job market average salaries, reward performance with a merit based compensation philosophy, and a quality benefits package."* **Representative Pasley-Stuart** answered that she was referring to both Items #1 and #2 on page 1, pointing out that that is where the CEC recommends no adjustment be made to the current payline or compensation structure. **Ms. Castro** said she had no comment on that, agreeing that is exactly what it says.

Senator Kelly asked if the payline was moved last year. **Ms. Castro** answered that this committee did not formally move the payline.

Ms. Castro continued reading the draft resolution, Item #3 on page 1 which would add a 3% increase for CEC, and could be adjusted by this committee, a 1% salary increase across-the-board, and that state agencies and institutions are required to review and target any classifications, individuals below midpoint within their agency, and individuals below ninety percent of the Compa-Ratio. Agencies and institutions would then be directed to target any remaining funding based on merit using the merit matrix required in Idaho Code.

Ms. Castro then read Section #4(a) on page 1 and 2 that reads: *"The Joint Finance Appropriations Committee is directed to provide funding of $8,700 per full-time equivalent position for the employer portion of the benefit premiums. The Department of Administration is directed to collect no more than $16,400,000, equivalent to a 29% total employee premium increase for premiums from active state employees."*

Senator Hammond asked about the $8,700 per FTP, stating that this was discussed in JFAC and he recognizes now that if an employee is insured by someone else, what happens to that $8,700. **Ms. Castro** answered that if that money is General Fund money, it will still be paid to the insurance fund; if it is federal, they won't be able to collect it, and if it is state dedicated funds, that will be paid to the insurance fund as well. She emphasized that the Governor's recommendation includes $9,200, but the difference between that $9,200 and the $8,700 ($500 difference) is essentially the subsidy toward retirees and the restoration of the reserves. The CEC committee's charge is for current ***active*** state employees, so this leaves that reserve restoration issue and the retiree subsidy issue up to the legislation that may or may not be forthcoming and to JFAC to fund, based on meeting their budgetary requirements. **Senator Hammond** asked if they have that allocation for employees and, if it isn't used for that purpose, can the agency use that money for other purposes. **Ms. Castro** answered that if it is state funds, the agency will not be able to, the reason being that the insurance plan is self-funded. All the money goes into a pot, claims are paid from that pot, and whatever is left over goes into reserves or reserves pay for any difference. For 2008, this health insurance plan is expected to spend $192 million; for 2009, it is expected to spend $215 million so, in order to meet that requirement, that fund needs to have enough money to pay claims. **Senator Hammond** asked if that money rolls back into the fund if not used by the agency, and **Ms. Castro** answered that currently the money does not roll back into the fund; it stays in the agency's budget, but this resolution would require agencies to pay all appropriated state funds for benefit purposes to the Department of Administration fund. **Senator Andreason** said the way this is modeled is that money can be moved down but not up; money can go from personnel costs to administration or capital outlay, but money can't go from capital outlay or administration up to personnel costs, which **Ms. Castro** confirmed.

4(b) State agencies and institutions are directed to remit all state funding for health insurance included in the appropriations for employees eligible to be enrolled in health insurance to the group insurance account created in 67-5771, Idaho Code.

4(c) The Department of Administration is directed to institute an additional insurance plan option in order to provide state employees a choice that better meets the employee's individual needs and benefit coverage desires. The third plan must maintain premiums at the 2008 premiums cost for both the employer and the employee.

4(d) The Department of Administration is further directed to maintain the current active employee insurance plans with benefits substantially similar to current benefits coverage. If the Department of Administration is unable to maintain substantially similar coverage within the FY 2009 benefit funding designated in section 4(a) above, the Department shall notify both the Change in Employee Compensation Committee and the Joint-Finance and Appropriations Committee of the changes required to maintain the current insurance plans within the benefit funding amounts.

4(e) The Change in Employee Compensation committee recognizes that there are current subsidies within the active employee plans as well as within the active employee premium charges. In order to start to reverse the internal subsidies between benefit election categories, the Department of Administration shall cover all eligible active personnel only, without charging a premium; and as a condition of employment all active personnel shall accept health insurance coverage or provide evidence of a comparable alternative health insurance plan. The Department of Administration shall be given the appropriate flexibility to accomplish other inequities within the active employee insurance plans that are deemed appropriate by the Director.

Senator Kelly asked about inequities and the fact that there may be a new requirement that employees take health insurance or show proof of an alternative health insurance plan and asked **Ms. Castro** to expand on that paragraph. She said it seemed to her that with regard to the last sentence in 4(e) that it should include some report-back language as in 4(d). **Ms. Castro** said they could include that language or they could ask the Department of Administration to report back on what they did, adding that it wasn't left out for any particular reason.
5. The committee further recommends that elected officials, judges, and commissioners be treated in a similar manner as state employees.

Representative McGeachin said there have been budget requests from agencies asking for above and beyond the CEC, to get employees up to market pay, one example being the public defender but she said there are more; she asked for clarification on #5 above and whether that means that this committee and JFAC should not consider those additional requests. **Ms. Castro** answered that elected officials', judges' and commissioners' salaries are set in statute, adding that #5 above *recommends* that the action take place, and it doesn't address those line item increase market equity adjustments. She said that the appellate public defender is included in that first 3%, so essentially everyone would get 3% and those line items would then be left up to JFAC, not saying one way or the other which way to go.

Representative Pasley-Stuart asked exactly what "elected officials" were referred to in #5 above. **Ms. Castro** said that would include the Governor, Lieutenant Governor, Secretary of State, State Controller, State Treasurer, Attorney General, and Superintendent of Public Instruction, not to include legislators, since legislators' salaries are set completely differently. **Representative Pasley-Stuart** said she specifically recalled last year in State Affairs setting the salaries for those particular positions, adding that they extended way out. **Ms. Castro** agreed that legislation was passed two years ago, but typically the salaries are adjusted January 1st of the year they are up for reelection into office. She recalled that the bill passed gave 4% the first year and 3% after that, but that JFAC had the option to fund an additional amount, even though they don't currently fund any more than is currently in statute.

6. Agencies and institutions shall create compensation and distributions plans to ensure they are consistent with the policies contained herein. Agency directors and institutional presidents shall approve all compensation and distribution plans and ensure that implementation of the plans are consistent with policies contained herein. Each agency and institution shall forward, for informational purposes only, copies of the agency approved compensation and distribution plans to the Legislative Services Office and the Division of Financial Management by June 1, 2008.

7. For fiscal year 2009 agencies and institutions are hereby directed to allocate salary savings to provide for employee salary needs based on performance, before other operational budget priorities are considered. Where applicable, employees whose salaries are below midpoint of their pay grade or occupational groups with significant turnover shall be considered first in the order of salary savings distributions.

8. The effective date of implementation of ongoing salary adjustments shall be June 15, 2008.

BE IT FURTHER RESOLVED that appropriations measures to fund non-classified employees be prepared in as nearly as possible the same manner as for classified employees

Ms. Castro explained that with regard to #7 above, it doesn't address the CEC increase, but does address salary savings, so if there is a vacant position or if an agency hires an employee at a lower salary than what the past employee's salary was in that position, a salary savings occurs which could then be used toward personnel increases based on performance first, targeting employees below midpoint or jobs with significant turnover. This allows JFAC to shorten their appropriation bill intent language and puts it into a CEC resolution, a practice which state agencies have been using for the past few years.

Senator Andreason commented that he could not imagine an agency using that section at all with the amount of salary increase being proposed currently; he couldn't imagine any money being left to switch down to capital and administration. **Ms. Castro** said that, typically, two years ago when agencies testified before an interim CEC committee, what was found was that state agencies were leaving positions vacant and then agencies transferred that money down, adding that there will always be vacancies. She said that large agencies such as the Department of Health and Welfare and the Department of Correction will never run at 100% full, it is just not profitable, so that what #7 says is for an agency to leave their personnel dollars in personnel if they have it, and don't shift that money down to operating and capital unless the personnel have been taken care of first. Typically there have been mid-year increases in salary savings as long as they are allowed by the Division of Financial Management.

Senator Kelly asked if that would be in the form of bonuses or ongoing increases. **Ms. Castro** answered that there were two forms: a vacancy would be one-time funding, using the example of someone leaving a job at $35 hourly and an agency hiring a new employee at $30 hourly, leaving ongoing money an agency could distribute, there being ongoing and one-time increases in that example. **Senator Andreason** said he remembers when the Legislative Budget Office and Department of Financial Management allowed the Department of Health and Welfare to give a 5% salary increase without any funding because of their turnover. **Ms. Castro** replied that such large departments can never run at their full FTP, so they can't hire over that, and they do use those savings to bring salaries up in target areas.

Senator Kelly asked if we have had this sort of language the past few years, asking if it has worked, and **Ms. Castro** answered "absolutely."

Ms. Castro referred to a handout entitled "Appropriation vs. True Costs for Employer," a copy of which follows:

	Funded	Costs	Difference
EE Only	$576	$ 371	$205
EE/Spouse	$576	$ 730	($154)
EE/Child	$576	$ 514	$ 62
EE/Children	$576	$ 730	($154)
EE/SP/Child	$576	$ 873	($297)
Family	$576	$1,088	($512)

Ms. Castro explained that what is currently funded in the budget is $576 per month per employee, but the employee only costs $371 monthly, the difference being $205 monthly which goes to subsidize other categories. What this would do would be to fund the employee's premium, pointing out that the employee's monthly premium would not go up; instead, the employee would no longer pay that premium. In order to pull in funding, even if an employee didn't elect benefit eligibility, it would then require an employee to get on an insurance plan or show coverage elsewhere, making sure that every employee would be covered by insurance. The issue is that some employees elect not to pay that premium, which often causes an impact to state government elsewhere or in the private sector. If an employee would elect health insurance coverage for self only, that employee wouldn't have to pay any money out-of-pocket for that premium.

Ms. Cathy Holland-Smith mentioned that there are some policy issues behind this that have been discussed with the CEC committee, one of which has to do with who is the final payer when the state changes the policy around health insurance. She said that currently Idaho requires students to provide proof of health insurance or they are required to pay for health insurance, adding that this is a similar type of approach, at least with regard to state employees. The state is already currently paying for that benefit, funding more than what is needed for each individual employee, understanding that any insurance policy is about sharing risk, the key being an opportunity to accomplish several ends. First, to make sure that the state offers benefits that can justify requiring that an employee elect insurance coverage or show proof that they have other credible coverage. Also, if an employee elects that health insurance benefit, an employee only would not have any out-of-pocket expense, that being part of compensation. Up until a few years ago, **Ms. Holland-Smith** said that the state of Idaho did not previously charge a single state employee for that premium; that began when the state put in policy that the employee and the state would equally subsidize retiree insurance premiums. She said that another key part of this policy change, hopefully, is to capture all the funding that has been going out to state agencies for health insurance that has not been dedicated for health insurance. This helps the state meet the goal of the test of providing a service, and that every employee does have coverage. **Ms. Holland-Smith** added that this is a big change, and that the Legislature will decide if this is the best step to take.

Senator Kelly asked if we implement this policy, would this chart look different. **Ms. Holland-Smith** said that it was her understanding, based on what **Mr. Gwartney** has shared, that right now within our own categories of employees based on health insurance coverage they accept, that the subsidies are significantly different, and it has been acknowledged that there may be a leveling out between various categories, and that the chart shown at the bottom top of page 7 in these minutes would look differently. **Senator Kelly** asked if that would be a "yes" and **Ms. Holland-Smith** affirmed that.

Representative Roberts moved to accept the language in the concurrent resolution adding a 3% CEC funding increase, and adding $8,700 per FTP benefit cost for the employer, seconded by Senator Coiner.

Representative Roberts thanked the Governor, his staff and DFM for presenting to the Legislature in a timely fashion a budget that was well put together, having been worked on early in the year, adding that since that time a lot has changed since that budget was submitted and now the revenue stream has changed, as **Senator Cameron** pointed out earlier in this meeting. Since the Governor has now made adjustments to his budget, **Representative Roberts** said that he now believes it appropriate to come forth with this 3% CEC change, even though the amount is not as much as had been hoped for, but it does address the cost of inflation, especially when the new revised budget is looking at a 2.79% revenue projection for 2009. He said that Idaho is still in a better financial condition compared to many other states who have substantially more difficult budget problems. **Representative Roberts** said that he believes there has been progress made working with the Governor's Office on benefits, which will be seen in the near future.

Senator Kelly offered a substitute motion, moving that a 4% CEC funding increase be added to the concurrent resolution, $8,700 per FTP benefit cost for the employer, and an additional 1% if revenues allow for it (a one-time 1% surplus eliminator), seconded by Representative Pasley-Stuart.

Ms. Pasley-Stuart spoke to her motion saying that this has been a very disappointing recommendation and a very difficult CEC, adding that legislators have many constituents in their districts who are public employees, and said she had received more e-mails and phone calls on this particular issue than anything else combined. She believes this to be an integrity issue; those legislators who were on the interim committee two years ago made recommendations for improving employee compensation, realizing that this was the committee's intent, and it is also counter to what other states are doing. She said that the temporary decrease in our economy currently is just that, and she believes that the Governor's original projection was far more accurate than we have given him credit for, and expressed grave concern over recruitment and retention. She said that state employees keep the "train running" and that the state could not run without them. She said there are a number of unfilled positions and that there are other options to be explored such as a hiring freeze, perhaps not filling unfilled positions, and even a small potential cutback of the workforce, which has certainly happened before. She asked that the committee seriously consider a 4% CEC funding increase and the 1% surplus eliminator, which she believes is a far better way of handling state employees, adding that we need to be cognizant of the fact that we are the state's largest employer. **Representative Pasley-Stuart** said that information previously requested from the Division of Human Resources has still not been received, so this committee was still not dealing with all of the information requested. She said she did receive one report on February 13, 2008, which was dated January 17, 2008, which had only one item (average age of employees being 37.3), which the committee already knew, again asking the committee to support the substitute motion.

Senator Kelly observed that many on this committee two years ago developed a compensation philosophy which was codified into statute and reminded the committee of one sentence, which was debated very heavily before it was adopted, which said that *regardless of the specific budgetary conditions from year to year, it is vital to fund necessary compensation adjustment each year to maintain market competitiveness in compensation.* **Senator Kelly** said that a 4% CEC increase and a 1% additional would barely keep the state working toward the CEC committee's goal to get employees up to market competitiveness, even then taking many years.

She said that with a setback this year, giving minimal salary adjustments, that the state is coming dangerously close to actually backtracking, rather than keeping up with market levels. **Senator Andreason** confirmed that the committee (in 2005) thought that it would take a 5.8% net increase in salary annually over a period of ten years to reach market, which is a moving target, and **Senator Kelly** affirmed that this was her understanding of the committee's intent since 2005.

Ms. Castro asked to clarify the motion and asked **Senator Kelly** about the surplus eliminator, asking if there was leftover money at the end of the fiscal year, June 30, 2008, to be paid out in the beginning of FY 2009 or leftover money at the end of June 30, 2009 to be paid out in FY 2010. **Senator Kelly** asked if both could be done, i.e. if one didn't happen, then perhaps the next year it could occur. **Ms. Holland-Smith** answered that the key difference is how a "surplus" would be defined. She said that right now there is a revised Governor's recommendation in which revenue for 2008 went from 3.5% to 1.79% because we expect to have cash carried over in 2008/2009. She added that we are depending on that with projections right now, so the key would be if the revenue for 2008 would exceed the revenue forecast, and if that is the case, that would trigger spending in 2009 and the defined amount of 1%. The key difference would be: would the surplus eliminator for surplus revenue in 2009 mean that the pay increase would go into effect in 2010, key difference being that the Legislature would be back next January and would then know what the revenues would be. Then resources available could be addressed, adding that it does need to be clarified.

Senator McGee commented that surplus eliminators he has seen have dealt with the current year's budget, asking if that would not be unusual to look that far in the future for a surplus eliminator. **Ms. Holland-Smith** said that it would be very difficult to say with much certainty what might be likely to occur. She said they typically look at a surplus eliminator at a time when the environment is such that it reflects a surplus. **Senator McGee** debated against the substitute motion by saying that he appreciated **Senator Cameron's** opening comments at this meeting sharing the financial situation currently in the state, particularly when he mentioned holdbacks several years ago, saying those were very difficult times, hopefully not to be repeated if we can avoid that. He said that the Governor's 5% CEC recommendation made him excited and he had been intrigued about that possibility, adding that long-term there may be validity to the Governor's recommendation. **Senator McGee** added that based on the current forecast and numbers, he said he believed it would be fiscally irresponsible to do anything more than the original motion of 3%. He said the fact now is that we are in an economic condition that is getting worse, and decisions must be made now on best evidence in front of us, which he believes would be to support the original motion.

Senator Hammond debated against the substitute motion by saying that he thought it was great that this committee was debating between 3% and 4% CEC increase since there have been years when it was much lower or zero when times were tough. To say that we should still be optimistic he believes is not realistic, especially in light of current Boise layoffs and in other parts of Idaho. He believes that Idaho will come back, but he cautioned about getting ahead of ourselves and committing the state to more than it can currently afford. **Senator Hammond**

pointed out that there was nobody on this CEC committee that wouldn't love to give employees that 5% increase, adding that they must be honest with themselves and state employees, even though it is tough. He said there was previously a more optimistic forecast, but that has currently changed.

Senator Andreason asked **Senator Cameron** to respond to the fact that the original motion was based on his comments regarding the downturn in the economy and the incoming revenues. **Senator Andreason** asked if the CEC committee takes action based on this downturn, what if later in the year the economy rebounds to the point that the committee could consider an additional CEC increase such as providing an additional 2% possibly next January, 2009, to go into effect possibly March 1, 2009, asking whether that was something that **Senator Cameron** thought this committee could consider in the future.

Senator Cameron commented that earlier he should have said that he wanted to commend the Governor for asking and seeking a 5% CEC increase, having done so in a time frame when Idaho's economy and revenues were different, and when the national economy was certainly different. He commended the Governor for advancing and trying to keep our public employees up to market, having demonstrated both last year and this year commitment toward that effort. Likewise, he said the Legislature has equally tried to demonstrate that same commitment. **Senator Cameron** cautioned that, in his opinion, this committee should take the cautious approach in recommending an appropriate CEC increase now, to monitor the economy and to come back next January. He said if the economy is better than anticipated and currently projected, then a bill could certainly be the first issue addressed next session to try to make up that difference in the middle of 2009. He advised this would be far better for state employees than a one-time surplus eliminator that would essentially be a bonus, as well as far better for the state from a budgeting standpoint. He said as he looked at the numbers being projected, there is significant reduction in one-time money and with a one-time surplus eliminator, that is the approach that would be taken. **Senator Cameron** added that in order to treat public employees and public school teachers fairly, the 3% is probably the maximum that the budget can now withstand. **Senator Andreason** asked if it might be feasible to reconsider next session, if there is a positive change in the economy, and **Senator Cameron** said he did not want to trap the Governor or any of his colleagues. He said that given the past history that this Governor has shown and our history of trying to treat our employees as best the state financially can, if there is enough revenue to handle additional, immediate increases, he thought that certainly would be a possibility. **Senator Andreason** thanked him for his input.

Representative Bolz asked **Senator Kelly** about the 1% surplus eliminator, and asked what is the kicker that puts that in. **Senator Kelly** answered that she had only received this draft resolution the morning of this meeting, adding that, not being a member of JFAC, she wasn't sure how to best answer that question, inviting suggestions on how sideboards may be added to her substitute motion. **Representative Bolz** said that he was debating against the substitute motion due to (1) we don't have what would put that surplus into effect, a gauge to go by, and (2) he agrees wholeheartedly with **Senator Cameron** about where the budget is right now. He said even if this committee did recommend a 4% or 5% increase, JFAC must make agency budget decisions now, and any CEC increase above 3% could be at the expense of agency requests necessary for them to carry out their missions; for that reason **Representative Bolz** said he would be supporting the original motion.

Representative Roberts pointed out that the cost for a 3% CEC increase when looking at all funds, general, dedicated, and federal dollars, would amount to slightly more than $33 million. When looking at the benefit funding as well, he said that would be another $28 million for increased costs for employees, for a total of about $61.3 million statewide, a significant move to recommend the 3% CEC increase.

Senator Coiner said he would like nothing more than to give a 5% increase, and he has long said that state employees need more salary increases, believing that this is costing the state in training and turnover, but it must come down to the money currently available. He said that everyone on this committee has been exploring ways to find more money for a larger CEC increase than the original motion's 3%. He added that legislation is pending which he hopes everyone will be supportive of, which could change some benefits for retirees, adding that this is how they were able to add $8,700 per FTP down from $9,200 ($500 savings). He said that part of the process discussed earlier by **Ms. Holland-Smith** will bring some money back around to be kept in the benefit package as well. **Senator Coiner** said that as these improvements are made as they work with this administration to come up with solutions over the next year, he has hope and confidence that the money savings generated will be kept in the compensation package for employees and, as savings occur, then perhaps that could generate a larger CEC increase in the future. Unfortunately, at this time, he said he would be supporting the original motion.

Senator Andreason said he would be embarrassed to give state employees a 1% salary increase, something he would never consider, adding that there are ways around the way things have been structured. His other concern was the increased cost in health care, especially if there will be employees receiving less of an increase than their increased cost in health care; he believes this will be a major problem with state employees.

Representative Schaefer commented that he was truly happy that there was a 5% CEC increase last year, adding that salary increases are an ongoing issue, and he said it would be an embarrassing situation if that increase had not been made last year. He commended employees for their dedicated work around the state, expressing hope for a better financial picture next year. He said that, as a legislator, he is beholden to the taxpayers of Idaho, being responsible to them, and he recommended that the committee support the original motion, since 3% is the best that he believes can be done this year.

Representative McGeachin spoke in support of the original motion, adding that this really is an integrity issue. She said this committee is trying to protect the long-term well being of our state employees, and she wanted to publicly acknowledge all Idaho state employees. She said that Idaho is a truly great place to live and she sincerely believes that this is so because there are so many dedicated state employees, just as members of her private family business owe their success to their employees. She said the state is currently at a crossroads where they cannot do what they would like to do to reward and thank all state employees, asking for support and patience to get through these difficult times.

Senator Kelly reiterated that, as they discuss fiscal responsibility, the state as an employer is losing money because we are losing employees with regard to recruitment, retention and turnover. She said that part of the reason is that the state fails to have a total compensation package that can compete with both the public and private sector employers who attract state employees. From a short-term standpoint, she realizes what is being said about current budget projections, but from a long-term standpoint, and the good work done by the CEC interim committee in 2005, she believes this is an investment and a fiscal issue necessary to retain good employees.

Senator Andreason called for a roll call vote on Senator Kelly's substitute motion that a 4% CEC funding increase be added to the concurrent resolution, $8,700 per FTP benefit cost for the employer, and an additional 1% if revenues allow for it (a one-time 1% surplus eliminator), seconded by Representative Pasley-Stuart. The substitute motion failed 2-10, with Senator Kelly and Representative Pasley-Stuart voting "aye."

A roll call vote was then taken on the original motion made by Representative Roberts to accept the language in the concurrent resolution adding a 3% CEC funding increase, and adding $8,700 per FTP benefit cost for the employer, seconded by Senator Coiner. The original motion passed 10-2, with Senator Kelly and Representative Pasley-Stuart voting "nay."

Senator Andreason expressed his appreciation to the committee for their work in arriving at this very important decision; he said he sees this as a setback situation that we will recover from. The meeting was adjourned at 10:00 a.m.

Attachments:
Concurrent Resolution/Draft Motion
CEC Draft Resolution Effects