

MINUTES

SENATE COMMERCE & HUMAN RESOURCES COMMITTEE

DATE: Tuesday, February 07, 2012

TIME: 1:30 P.M.

PLACE: Room WW54

MEMBERS PRESENT: Chairman Andreason, Vice Chairman Malloy(McKague), Senators Cameron, Goedde, Smyser, Tippets, Johnson, Stennett, and Schmidt

**ABSENT/
EXCUSED:**

NOTE: The sign-in sheet, testimonies, and other related materials will be retained with the minutes in the committee's office until the end of the session and will then be located on file with the minutes in the Legislative Services Library.

Chairman Andreason convened the meeting at 1:30 p.m.

GUBERNATORIAL APPOINTMENT TO BE HEARD **Chairman Andreason** introduced **Mark Holubar**, the Governor's appointment to the Idaho Personnel Commission to serve a term commencing November 17, 2011 and expiring July 1, 2017. **Mr. Holubar** advised that he currently serves as the Director of Human Resources for the Idaho National Laboratory (INL) based in Idaho Falls. The educational background and the professional experience that he has gained in a career lasting over thirty years in the human resource and administration field will serve to assist his appointment to the Commission. **Mr. Holubar** currently serves as the Chairman of the Board of Trustees of the Museum of the University of Idaho. This appointment will offer the opportunity to serve the community and the state.

Senator Smyser asked **Mr. Holubar** what his biggest contribution will be to this Commission. **Mr. Holubar** replied that it would be his understanding of how the process should work in an employment situation. Throughout the thirty years of his career, he has worked to negotiate employer and employee interaction to make sure that the employee has had a voice. In assessing the leadership and organization where the employee is working to make sure that due process has been maintained in all of the issues that arose in applying policy correctly. This maintains that the process does not tilt too heavily to one side in the particular authority that comes with position. **Senator Johnson** asked what do you think would be the primary barrier in recruiting and maintaining future employees? **Mr. Holubar** said that there are many reasons why there could be barriers for employees working for the State of Idaho. However, as long as there is appropriate balance of work, compensation, and benefit structure it is a matter of assessing the individual's talent for the correct match for the open position in an organization. Matching these will draw good talent into the organization.

Budget & Policy Analysis, Cathy-Holland Smith, Division Manager, Legislative Services Office, advised that she would speak to the hand outs in the Power Point Presentation which are as follows: 1) Change in Employee Compensation (CEC) (Attachment 1); 2) "Change in Employee Compensation (CEC) FY2007 to FY2013" (Attachment 2) on page 25 is a table which reflects the twenty year history of the pay changes that have been given employees, judges, legislators, and elected officials; and 3) Section 67-5309C, *Idaho Code*, Title 67 Annual Surveys, Reports and Recommendations (Attachment 3). Since it has been some time since the Idaho Code has been changed to require the legislature to take action when it comes to the CEC and also to be able to fund a CEC you may not all know of the requirements. We will go over: 1) Governor's recommendation; 2) Code sections that apply to legislature; and 3) Discuss some

of the options of the legislature.

The Governor recommends reserving an amount equivalent to a one-time merit based 3% CEC for permanent employees to be distributed if General Fund revenues meet projections. When we talk about General Fund revenue we must consider which time-frame FY2012 or FY2013. The Governor recommends that if the state meets the 4.43% revenue increase for FY2012 in July 2012, half of the 3% CEC would be distributed to state agencies and public schools. Then if the state meets the revenue projections from July through December of 2012, in January 2013 the other half of 3% would be released to state agencies and public schools. The Economic Outlook Revenue Assessment Committee (EORAC) of the legislature accepted a 4.5% increase in FY2013, rather than the 5.78%. Whatever the legislature chooses, if they accept the Governor's recommendation or a recommendation from the legislative body. One of the key choices you will have to make is which revenue projection will you use as the cap. The cost of the Governor's 3% one-time merit would be \$41.1M General Fund. Public schools would receive \$25.4M and state agencies would receive \$15.7M. This also will restore funding for health insurance premium holidays of \$12.5M General Fund for state agencies. Legislative Services Office (LSO) took \$14.8M from emergency from the General Fund in FY2011 when they did budget cuts and now they are restoring the fund.

When the budget was set by the legislature in January 2009 a concurrent resolution was passed to distribute funds. The legislature has not done a concurrent resolution in 2010, 2011, 2012. Idaho Code states: "The legislature may, by concurrent resolution, accept, modify or reject the Governor's recommendations, but any such action by the legislature, at a minimum, shall address the four components and subsequent funding of each component required in this section. The failure of the legislature to accept, modify or reject the recommendations prior to adjournment sine die shall constitute approval of the Governor's recommendations, and such recommendations shall be funded through appropriations provided by law. The administrator of the division of human resources shall implement necessary and authorized changes to salary and pay schedule by rule. The director of the department of administration shall implement necessary and authorized changes to benefits."

Ms. Holland-Smith reminded the legislature where they have been in the process of the cuts in personnel funding over the last couple of years one of the key requests from Governor was that you give him and his managers the flexibility to manage personnel costs in a manner agency by agency. This was not an across the board mandate. We did remove the discounting funding in personnel costs and agencies, we did have furloughs and there were lay-offs. The workforce has reduced. The legislature has stayed silent on any other issues concerning personnel management and supported the Governor where it came to the management of salary changes. Some of our legislators and agencies had different ideas of what may have been going on. Some individuals thought that we had a pay freeze, there was no pay freeze. Some people remained concerned when there have been pay changes whether they were due to promotions, reclassifications, bonuses, or merit increases.

The Idaho Code in addressing compensation doesn't speak to public schools. This is the first time that LSO has had a major policy shift. In the past when there would be a CEC it would correspond with a CEC for public schools. Last year, based on changes in code, there is now a "Pay for Performance" in statutory allocation for the public school funding formula. When the Governor made his recommendation he did provide for that 4.5% increase in "Pay for Performance" and he also provided for the 3% CEC for both public school teachers, administrators, and classified employees.

The components that the legislature is requested to address and these are the same components that the Division of Human Resources addressed when they gave their presentation and compensation report at this Committee: a) A recommendation for market related changes necessary to address system wide structure adjustments to stay competitive with relevant labor markets. b) A recommendation for market related changes necessary to address specific occupational inequities. c) A recommendation for a merit increase component to recognize and reward state employees in the performance of public service to the citizens of Idaho. 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. The recommendation of the state now is that there be no changes to these recommendations.

Ms. Holland-Smith reminded the Committee that the key component is the legislature adjustment whether it would be through a statutory proposal, or an appropriation bill that spoke to the recommendation of the legislature. The legislature has a choice and you can create different delivery methods if you so choose. There was some action taken some years ago for elected officials. They received a pay decrease in 2011 and that was an attempt to mirror a funding decrease that happened in 2010 of a 5% reduction in the state workforce. The individual elected officials took a 4% pay cut, while the state used the funding of the state agencies in the previous year of 2010. In January 2012 the constitutional statewide officers received a 4.1% increase in their salaries. These were judges or legislatures or other appointed officials. The Governor's recommendation does include a CEC, not only for the state agency personnel but also for appointed officials and judges.

Ms. Holland-Smith reflected on what LSO has seen in the dynamics and trends of all the workforce actions that have taken place to-date applied to all of the agencies. There were some fairly large agencies that were being very public on the stresses that they were under in order to meet their state index. In the Office of the Attorney General they found that their agency depends so heavily on the general fund that they had unique struggles. They didn't have much operating money because the agencies paid for the operating costs of the Attorney General and his office paid for the personnel cost. The Attorney General's office continues to have a significant number of vacant positions and are struggling to meet the requests of the agencies. The agencies continue to want services but the Office of the Attorney General cannot respond to their requests.

At the Department of Correction they found that they were no longer struggling with furloughs, but they were struggling with the high rate of turnover in the correctional officer category. They were spending more money trying to recruit and train individuals to fill the vacant positions. They did not have resources to pay for overtime for all of the posts. LSO found that the Tax Commission was an agency that was receiving resources while other agencies were being cut because there was the expectation that they could provide additional revenues that would sustain the rest of state government. The Tax Commission did not think that they could do a proper job from the audit and collection functions without adding support in the administrative sector of Human Resources and Information Technology. The Tax Commission came to the legislature to request support in transferring some of the money they got from audit and collections into the other divisions to help support their activities. The most striking issue that came out from the agencies during this downturn was there was a strong sense of fairness. If the resources they had been given had been given in a lopsided manner, they wanted to transfer those resources and spread them around and keep their employees satisfied and morale up.

Senator Tippetts asked have some of the agencies had salary savings that they have redistributed to provide a small increase to their existing staff? **Ms. Holland-Smith** replied that what they have found are agencies with dedicated and federal funds were diverting appropriations because they were not able to give pay increases. When they had turnover they were not able to reinvest into their workforce. If a senior individual left the agency and they hired a junior individual, they redistributed those funds. This year some agencies do have a recommendation to use some of their funds for pay raises. Many agencies stopped filling positions, even though they had the appropriation for them. Instead of using money for pay increases they were encouraged to revert those funds back to the general fund at the end of the fiscal year.

Senator Smyser asked is there anything that the state has done internally to support the employees who are at an all time low in morale? **Ms. Holland-Smith** stated that some agencies have limited staff who are able to work from home or the casual Friday.

Chairman Andreason asked for clarification on some statements in **Ms. Holland-Smith's** presentation. What is the amount of money that the Governor is using for the one time CEC bonus? **Ms. Holland-Smith** replied that the amount is \$41.1M for public schools and for state employees. Of that \$41.1M, \$25.4M is for public schools, and \$15.7M is for state government. **Chairman Andreason** asked what dollar amount would be needed to give a 3% salary increase across the board ongoing? **Ms. Holland-Smith** stated it would take the same dollar amount \$41.1M. The bottom line for 2013 would look exactly the same. It would be 2014 that would be different if it is the one time versus ongoing.

Consideration of a CEC Salary Increase, Donna Yule, Executive Director, Idaho Public Employee Association, stated her purpose before the Committee today is to request the legislature to give a 3% across the board pay raise to state employees. In the State of the State speech Governor Otter proposed setting aside \$41.1M to reward "our most deserving employees" with one time bonus payment. The Governor also recommended that the bonuses should be commissioned on tax revenues meeting projections.

Governor Otter also proposed setting aside \$45 million for tax relief. We noticed that the Governor's "tax relief" proposal is not conditioned on tax revenues meeting projections as are the one time pay increases. This makes it very clear that, at least according to the Governor's speech, our state employees are very low on the priority list.

Human Resources Administrator, Vicki Tokita, in her recent presentation before the Committee, stated that our state workforce went from 25,898 employees in 2008 to 24,090 employees in 2012. That is a decrease of 1,808 employees. Yet the workload for state employees didn't decrease. In fact, in some departments the work load has increased dramatically. **Ms. Yule** gave an example of the work load in Health and Welfare Office on Fairview (for detail please see Attachment 4).

Not only have state employees not had a raise in four years, many of them have actually seen pay cuts due to unpaid furloughs and office closures. Teresa Luna, Director of the Department of Administration, reported that the wages of our state employees are now 18.6% below market.

That is up from 15% below market in 2007. Executive Director, Don Drum, Public Employees Retirement System of Idaho (PERSI), reported that the number of employees retiring in the last few years has been unprecedented. Long time state employees have realized that their PERSI benefit will not grow if they continue working, so many have decided to retire early. Many of these long time employees are virtually irreplaceable at this time because there are no other state employees in the pipeline trained to replace them. This has also contributed to the deterioration of our state work force.

The morale of the state workforce is never reflected in the reports you receive here at the legislature, but it is a factor you should take into consideration. The morale of your state workforce is probably at an all-time low. I travel to as many state offices as I possibly can, and the stories I hear when visiting those offices are pretty much the same everywhere I go. Your state employees are working harder than they ever have. Many are working overtime off the clock simply to try to keep up with the increased workloads. And most are feeling unappreciated. When "tax relief" is higher on the Governor's priority list than salary increases for over worked employees, morale is obviously impacted in a negative way.

Governor Otter said, in his State of the State speech, that, and I quote, "you also will see a greater emphasis on ensuring the efficiency and prudent frugality that we've established in every agency of state government during the past three years become standard procedure. What we had to do then will become our new normal going forward." I urge you to visit your state offices and talk to your state employees and see if this is really what you want to become our "new normal." As our state's economy continues to improve, we hope you will allow your Department Directors to replenish some of these lost positions.

Today I'm here asking you to give an across the board salary increase to every state employee. We all know that a salary increase isn't going to solve all the problems of the state workforce. We know that, even if our employees get a pay increase, their work loads are still going to be extremely heavy. Many of them will continue to work unpaid overtime in an attempt to keep up with their workloads. At least they will know that you, their employers, appreciate the sacrifices they have made over the last four years of recession.

Vice Chairman Malloy stated you mentioned that there are state employees working overtime, off the clock, is this something that supervisors are asking these employees to do? **Ms. Yule** replied the supervisors are not asking them to do the overtime. The stories that she hears in her office are the employees cannot leave because there is a long line of people needing services, such as Health and Welfare. The employees are doing this overtime because the work does not go away, they can walk out the door at 5:00 but they are going to be that much further behind the next day.

Senator Tippetts asked what would be the percentage of a pay raise that would be meaningful to the employees if the 3% were not possible. **Ms. Yule** responded at least 2-2.5% would be considered a meaningful increase to the employees.

Senator Goedde asked would the employees rather not see anything rather than what the Governor has proposed? **Ms. Yule** replied the Governor's proposal is a one-time bonus payment. Every employee out there right now deserves a raise. It would be harder on morale to pick a few people to give a raise and not the rest.

Chairman Andreason asked **Ms. Holland-Smith** what is the cost for the Governor's bonus and what is the cost to give a 3% salary increase across the board ongoing? **Ms. Holland-Smith** said the cost to the general fund would be \$41.1M of the total \$25.4M public schools and \$15.7M for state agencies and the cost is the same whether it is a one time or an ongoing in 2013.

Alex Hymer, Idaho Association of Government Employees, stated that the 3% across the board ongoing salary increase is absolutely appropriate this year. The information he saw from the Bureau of Labor Statistics on the Cost of Living Index was from December 2010 to December 2011 it rose 3%. Anything less than 3% would represent less buying power.

Dale Tankersley, Member, Idaho Public Employee Association, former state employee stated as a taxpayer, he is concerned about the quality of the state work force. The state employees are what make the state go. It is the state employees everyday on the frontline doing their job. When the state loses its excellent employees then the state loses.

Senator Andreason
Chairman

Carol Deis
Secretary